SOCIAL SECURITY AS AN INDEPENDENT AGENCY

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 825

TO ESTABLISH THE SOCIAL SECURITY ADMINISTRATION AS AN INDEPENDENT AGENCY

APRIL 23, 1985

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SOCIAL SECURITY AS AN INDEPENDENT AGENCY

TUESDAY, APRIL 23, 1985

House of Representatives,
Committee on Ways and Means,
Subcommittee on Social Security,
Washington, DC.

The subcommittee met at 10:30 a.m., in room 1100, Longworth House Office Building, Hon. James R. Jones (chairman of the subcommittee) presiding.

[The press release announcing the hearing and a copy of the bill, H.R. 825, follow:]

[For immediate release. Friday, April 12, 1985]

The Honorable James R. Jones (D., Okla.), Chairman, Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, Announces a Public Hearing on H.R. 825 a Bill to Establish the Social Security Administration as an Independent Agency, and on the Issue of Removing Social Security from the Unified Budget

The Honorable James R. Jones (D., Okla.), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will hold a public hearing on H.R. 825, a bill to establish the Social Security Administration as an independent agency, and on the issue of removing social security from the unified budget. The hearing will be held on Tuesday, April 23, 1985, beginning at 10:30 a.m. in Room B-318 Rayburn House Office Building.[1]

BACKGROUND

SSA as an independent agency

The Social Security Amendments of 1983 (P.L. 98-21) created a study panel, (the "Staats Panel"), to conduct an implementation study of the recommendation made by the National Commission on Social Security Reform that the Social Security Administration be removed from the Department of Health and Human Services and established as an independent agency. The Panel submitted its report to the Committee on Ways and Means on June 12, 1984; on July 30, 1984, the Subcommittee held a public hearing on the Panel's report. Subsequently, several bills were introduced in the last Congress to create an independent agency. H.R. 825, introduced by Chairman Rostenkowski, Mr. Pickle and Mr. Archer, on January 30, 1985, would create an independent SSA agency to be governed by a bi-partisan, three-member governing board chosen by the President, with responsibility for appointing the Commissioner of Social Security.

In announcing the Subcommittee's hearing, Chairman Jones noted the importance of focusing congressional attention on the administrative structure of SSA. "The agency," Mr. Jones noted, "is responsible for paying benefits to over 35 million Americans, maintaining wage records for over 116 million workers, and handling the claims and information requests for millions of others. Congress can have no higher priority than to assure the efficient, fair and even-handed administration of the social security programs. This hearing is part of our continuing inquiry into the best way to do that, whether through an independent agency, or through any other or additional changes that might be necessary. We must guarantee that this extremely important program receives sufficient administrative support and is run in a fair and equitable manner."

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[1] Later changed to room 1100, Longworth House Office Building.

Removal of Social Security trust funds from unified budget

Prior to fiscal year 1969, the operations of the social security trust funds were not included in the unified budget, although they were made available publicly and were combined, for purposes of economic analysis, with the administrative budget in special summary tables included in the annual budget document. In 1974, Congress implicitly approved the use of a unified budget by including social security trust fund operations in the annual budget process. However, the Social Security Amendments of 1983 provides for the display of trust fund operations as a separate function within the budget and, beginning with fiscal year 1992, removes these trust fund operations from the unified budget.

There has been continuing discussion of this issue with some proposing to advance the date for removing the funds from the unified budget and others proposing that the provisions of the 1983 Amendments be repealed. "The purpose of this hearing," said Chairman Jones, "is to help bring this debate into sharper focus."

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler [(202) 225-3627] no later than noon, Thursday, April 18, 1985, to be followed by a formal written request to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. Notification to those scheduled to appear will be made by telephone as soon as possible after the filing deadline.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearing. This process will afford more time for members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 100 copies of their prepared statements to the Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

Requests to be heard, prepared statements to be presented in person, and statements filed for the printed record of the hearing, must contain the following information:

1. The name, full address, and capacity in which the witness will appear, as well as a telephone number where the witness or a designated representative may be reached;
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of comments and recommendations.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting written statements for the printed record of the hearing should submit at least six (6) copies by the close of business, Tuesday, May 7, 1985, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. (See other requirements enumerated above.) If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Committee office before the hearing begins.

99th CONGRESS
1st Session

H. R. 825

To establish the Social Security Administration as an independent agency, which shall be headed by a Social Security Board, and which shall be responsible for the administration of the old-age, survivors, and disability insurance program under title II of the Social Security Act and the supplemental security income program under title XVI of such Act.

IN THE HOUSE OF REPRESENTATIVES

January 30, 1985

Mr. Pickle (for himself, Mr. Rostenkowski, Mr. Archer, and Mr. Roybal) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To establish the Social Security Administration as an independent agency, which shall be headed by a Social Security Board, and which shall be responsible for the administration of the old-age, survivors, and disability insurance program under title II of the Social Security Act and the supplemental security income program under title XVI of such Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.

This Act may be cited as the "Social Security Reorganization Act of 1985".

TABLE OF CONTENTS

Sec. 1. Short title and table of contents.
Sec. 2. Declaration of purpose.

TITLE I—ESTABLISHMENT OF THE SOCIAL SECURITY ADMINISTRATION

Sec. 101. Establishment of the Social Security Administration as a separate, independent agency; responsibilities of the agency.
Sec. 102. Social Security Board; Commissioner; Deputy Commissioner; Beneficiary Ombudsman; other officers.
Sec. 103. Personnel; budgetary matters; facilities and procurement; seal of office.
Sec. 104. Transfers to the new Social Security Administration.

TITLE II—MISCELLANEOUS PROVISIONS AND CONFORMING AMENDMENTS

Sec. 201. Contributor and beneficiary bill of rights.
Sec. 202. Amendments to titles II and XVI of the Social Security Act.
Sec. 203. Other Amendments.
Sec. 204. Rules of construction.

TITLE III—EFFECTIVE DATES AND TRANSITIONAL RULES

Sec. 301. Effective dates.
Sec. 302. Transitional rules.

SEC. 2. DECLARATION OF PURPOSE.

The purposes of this Act are as follows:

(1) to establish the Social Security Administration as an independent agency, separate from the Department of Health and Human Services;

(2) to charge the Social Security Administration with administration of the old-age, survivors, and disability insurance program and supplemental security income program;

(3) to establish a Social Security Board as head of the Social Security Administration and define the powers and duties of such Board;

(4) to establish a Commissioner of Social Security and define the powers and duties of the Commissioner; and

(5) to provide for delegating major management authorities to the Board and the Commissioner.

TITLE I—ESTABLISHMENT OF THE SOCIAL SECURITY ADMINISTRATION

SEC. 101. ESTABLISHMENT OF SOCIAL SECURITY ADMINISTRATION AS A SEPARATE, INDEPENDENT AGENCY; RESPONSIBILITIES OF THE AGENCY.

Section 701 of the Social Security Act is amended to read as follows:

"SOCIAL SECURITY ADMINISTRATION

"SEC. 701. There is hereby established, as an independent agency in the executive branch of the Government, a Social Security Administration. It shall be the duty of the Administration to administer the old-age, survivors, and disability insurance program under title II and the supplemental security income program under title XVI.".

SEC. 102. SOCIAL SECURITY BOARD; COMMISSIONER; DEPUTY COMMISSIONER; BENEFICIARY OMBUDSMAN; OTHER OFFICERS.

(a) IN GENERAL.—Section 702 of the Social Security Act is amended to read as follows:

"SOCIAL SECURITY BOARD; COMMISSIONER; OTHER OFFICERS

"Social Security Board

"SEC. 702. (a)(1)(A) The Administration shall be governed by a Social Security Board. The Board shall be composed of three members appointed by the President, by and with the advice and consent of the Senate. The members shall be chosen, on the basis of their integrity, impartiality, and good judgment, from among individuals who, by reason of their education, experience, and attainments, are exceptionally qualified to perform the duties of members of the Board.

"(B)(i) Except as provided in clauses (i) and (ii), members of the Board shall be appointed for terms of six years. A member of the Board may be removed only pursuant to a finding by the President of neglect of duty or malfeasance in office. The President shall transmit any such finding to the Speaker of the House of Representatives and the Majority Leader of the Senate not later than five days after the date on which such finding is made.

"(ii) Of the members first appointed—

"(I) one shall be appointed for a term ending January 31, 1989,

"(II) one shall be appointed for a term ending January 31, 1991, and

"(III) one shall be appointed for a term ending January 31, 1993,

as designated by the President at the time of appointment. Such members shall be appointed after active consideration of recommendations made by the chairman of the Committee on Ways and Means of the House of Representatives and of recommendations made by the chairman of the Committee on Finance of the Senate.

"(iii) The President may not nominate an individual for appointment to a term of office as member of the Board before the commencement of the President's term of office in which the member's term of office commences. Any member appointed to a term of office after the commencement of such term may serve under such appointment only for the remainder of such term. A member may, at the request of the President, serve for not more than one year after the expiration of his or her term until his or her successor has taken office. A member of the Board may be appointed for additional terms.

"(C) Not more than two members of the Board shall be of the same political party.

"(D) A member of the Board may not, during his or her term as member, otherwise serve as an officer or employee of any government. If any member of the Board becomes an officer or employee of any government, such member may continue as a member of the Board for not longer than the 30-day period beginning on the date such member becomes such an officer or employee.

"(E) Two members of the Board shall constitute a quorum, except that one member may hold hearings.

"(F) A member of the Board shall be designated from time to time by the President to serve as Chairperson of the Board.

"(G) The Board shall meet at the call of the Chairperson or two members of the Board.

"(2) Each member of the Board shall be compensated at the rate provided for level II of the Executive Schedule.

"(3) The Board shall—

"(A) govern by regulation the old-age, survivors, and disability insurance program under title II and the supplemental security income program under title XVI,

"(B) appoint a Commissioner of Social Security, as described in subsection (b), to act as the chief operating officer of the Administration responsible for administering such programs, "(C) constitute three of the members the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, with the Chairperson of the Social Security Board serving as Chairperson of such Board of Trustees,

"(D) make annual budgetary recommendations relating to the Administration and defend such recommendations before the appropriate committees of each House of the Congress,

"(E) make recommendations to the Congress and the President as to the most effective methods of providing economic security through social insurance and as to legislation and matters of administrative policy concerning such programs,

"(F) provide the Congress and the President with the ongoing actuarial and other analysis undertaken by the Administration with respect to such programs and any other information relating to such programs, and

"(G) conduct policy analysis and research relating to such programs.

"(4)(A) The Board may prescribe such rules and regulations as the Board determines necessary or appropriate to carry out the functions of the Administration.

"(B) The Board may establish, alter, consolidate, or discontinue such organizational units or components within the Administration as the Board considers necessary or appropriate to carry out its functions, except that this subparagraph shall not apply with respect to any unit, component, or position provided for by this Act.

"(C) The Board may, with respect to the administration of the old-age, survivors, and disability insurance program under title II and the supplemental security income program under title XVI, assign duties, and delegate, or authorize successive redelegations of, authority to act and to render decisions, to such officers and employees as the Board may find necessary. Within the limitations of such delegations, redelegations, or assignments, all official acts and decisions of such officers and employees shall have the same force and effect as though performed or rendered by the Board.

"Commissioner of Social Security

"(b)(1) There shall be in the Administration a Commissioner of Social Security who shall be appointed by the Social Security Board.

"(2)(A) The Commissioner shall be appointed for a term of five years, except that the individual first appointed to the office of Commissioner shall be appointed for a term ending September 30, 1991. An individual appointed to a term of office as Commissioner after the commencement of such term may serve under such appointment only for the remainder of such term. An individual may, at the request of the Chairperson of the Board, serve as Commissioner after the expiration of his or her term for not more than one year until his or her successor has taken office. An individual may be appointed as Commissioner for additional terms.

"(B) An individual may be removed from the office of Commissioner before completion of his or her term only for cause found by the Board.

"(3) The Commissioner shall be compensated at the rate provided for level II of the Executive Schedule.

"(4) The Commissioner shall—

"(A) constitute the chief operating officer of the Administration, responsible for administering, in accordance with applicable statutes and regulations, the old-age, survivors, and disability insurance program under title II and the supplemental security income program under title XVI,

"(B) establish and maintain an efficient and effective operational structure for the Administration,

"(C) devise and implement long-term plans to promote and maintain the effective implementation of such programs,

"(D) make annual budgetary recommendations of the Administration for the ongoing administrative costs of the Administration and defend such recommendations before the Board and before the appropriate Committees of each House of the Congress,

"(E) advise the Board and the Congress of the effect on the administration of such programs of proposed legislative changes in such programs,

"(F) serve as Secretary of the Board of Trustees of the Federal Old-Age, Survivors, and Disability Insurance Trust Fund and the Federal Disability Insurance Trust Fund, and

"(G) report in December of each year to the Board for transmittal to the Congress concerning the administrative endeavors and accomplishments of the Administration.

Any reference to the Board in this Act or any other provision of law in connection with the exercise of a function of the Board which is delegated to the Commissioner pursuant to this section shall be considered a reference to the Commissioner.

"Deputy Commissioner of Social Security

"(c)(1) There shall be in the Office of the Commissioner a Deputy Commissioner, who shall be appointed by the Board. The Deputy Commissioner shall be appointed for a term coextensive with the term of the Commissioner and may be removed by the Board only for cause.

"(2) The Deputy Commissioner shall be compensated at the rate provided for level III of the Executive Schedule.

"(3) The Deputy Commissioner shall perform such duties and exercise such powers as the Commissioner shall from time to time assign or delegate. The Deputy Commissioner shall be Acting Commissioner of Social Security during the absence or disability of the Commissioner and, unless the Board designates another officer of the Government, in the event of a vacancy in the office of Commissioner.

"Beneficiary Ombudsman

"(d)(1) The Board shall by regulation establish in the Administration an Office of the Beneficiary Ombudsman, to be headed by a Beneficiary Ombudsman appointed by the Board.

"(2) The Beneficiary Ombudsman shall be appointed for a term of five years, except that the individual first appointed to the office of Beneficiary Ombudsman shall be appointed for a term ending September 30, 1991. An individual appointed to a term of office as Beneficiary Ombudsman after the commencement of such term may serve under such appointment only for the remainder of such term. An individual may, at the request of the Chairperson of the Board, serve as Beneficiary Ombudsman after the expiration of his or her term for not more than one year until his or her successor has taken office. An individual may be appointed as Beneficiary Ombudsman for additional terms.

"(3) The duties of the Beneficiary Ombudsman are as follows:

"(A) to represent the interests and concerns of beneficiaries under the old-age, survivors, and disability insurance program under title II and the supplemental security income program under title XVI within the Administration's decisionmaking process;

"(B) to review the Administration's policies and procedures for possible adverse effects on such beneficiaries;

"(C) to recommend changes in policies which have caused problems for such beneficiaries;

"(D) to help resolve the problems under such programs of individual beneficiaries; and

"(E) to represent the views of beneficiaries in the design of forms and the issuance of instructions.

"(4) The Board shall assure that the Office of the Beneficiary Ombudsman has staff sufficient to enable the Beneficiary Ombudsman to efficiently carry out his or her duties. Such staff shall be located in the regional offices, program centers, and central office of the Administration.

"(5) The annual report of the Board under section 704 shall include a description of the activities of the Beneficiary Ombudsman.

"General Counsel

"(e) There shall be in the Administration a General Counsel, who shall be appointed by and serve at the pleasure of the Board. The General Counsel shall be the principal legal officer in the Administration.

"Inspector General

"(f) There shall be in the Administration an Office of the Inspector General. Such Office shall be headed by an Inspector General appointed in accordance with the Inspector General Act of 1978.".

(b) INTERIM AUTHORITY OF THE COMMISSIONER.—The President shall nominate for appointment the initial members of the Social Security Board not later than 180 days after the date of the enactment of this Act. In the event that, as of the effective date of the amendment made by this Act to section 702 of the Social Security Act, all members of the Social Security Board have not been appointed, until all members of the Board have been appointed, the officer serving on the date of the enactment of this Act as Commissioner of Social Security in the Department of Health and Human Services (or Acting Commissioner, if applicable), or such officer's successor, shall, while continuing to serve as Commissioner of Social Security (or Acting Commissioner) in such Department, serve as head of the Social Security Administration established under section 701 of the Social Security Act (as amended by this Act) and shall assume the powers and duties of such Board and of the Commissioner of Social Security under such Act (as amended by this Act).

SEC. 103. PERSONNEL; BUDGETARY MATTERS; FACILITIES AND PROCUREMENT; SEAL OF OFFICE.

Section 703 of the Social Security Act is amended to read as follows:

"ADMINISTRATIVE DUTIES OF THE SOCIAL SECURITY BOARD

"Personnel

"SEC. 703. (a)(1) The Social Security Board shall appoint such additional officers and employees as it considers necessary to carry out its functions. Except as otherwise provided in any other provision of law, such officers and employees shall be appointed, and their compensation shall be fixed, in accordance with title 5, United States Code.

"(2) The Board may appoint, without regard to the provisions of title 5, United States Code, governing appointments in the competitive service, such technical or professional employees as the Board considers appropriate, and such employees may be paid without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates.

"(3) The Board may procure the services of experts and consultants in accordance with the provisions of section 3109 of title 5, United States Code.

"(4) The Director of the Office of Personnel Management shall delegate to the Board, pursuant to section 1104 of title 5, United States Code, and subject to applicable limitations under such title relating to delegations under such section, the functions relating to—

"(A) recruitment and examination programs for entry level employees, and

"(B) classification and standards development systems and pay ranges for those job categories identified by the Board in assuming such delegation.

The Director of the Office of Personnel Management shall provide any assistance requested by the Board in assuming such delegation.

"(5) Notwithstanding any requirements of section 3133 of title 5, United States Code, the Director of the Office of Personnel Management shall authorize for the Administration a total number of Senior Executive Service positions equal to 200 percent of the number of such positions in the Social Security Administration in the Department of Health and Human Services as of immediately before the date of the enactment of the Social Security Reorganization Act of 1985, and the total number of such positions authorized for the Administration pursuant to such section 3133 shall not at any time be less than such number.

"(6) In addition to the positions of the Administration in the Executive Schedule specified in section 702, the Administration is authorized six additional positions at level IV of the Executive Schedule and six additional positions at level V of the Executive Schedule.

"Budgetary Matters

"(b)(1) Appropriations requests for staffing and personnel of the Administration shall be based upon a comprehensive work force plan, which shall be established and revised from time to time by the Board. The entire amount of appropriations provided for the administrative costs of the Administration shall be apportioned in the time period provided in title 31, United States Code, for apportionment and shall be apportioned for the entire period of availability without restriction or deduction by the apportioning officer or employee of the Office of Management and Budget or any other entity within the executive branch of the Federal Government, except as otherwise provided in this subsection.

"(2) The report submitted pursuant to section 704 shall include a section reflecting the use of budget authority provided to the Administration by quarters.

"(3)(A) Authority of the Administration for automated data processing procurement and facilities construction shall be provided in the form of contract authority covering the total costs of such acquisitions, to be available until expended.

"(B) Amounts necessary for the liquidation of contract authority provided pursuant to this paragraph are hereby made available from the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund to the extent that the Board, with the concurrence of the Secretary of the Treasury, determines that such amounts are not necessary to meet the current obligations for benefit payments from the Trust Funds.

"(C) Funds appropriated for the Administration to be available on a contingency basis shall be apportioned only upon the occurrence of the stipulated contingency, as determined by the Board and reported to each House of the Congress.

"Mandatory Delegations from Administrator of General Services

"(c)(1) The Board shall have—

"(A) all authorities permitted to be delegated under the provisions of Federal law codified under title 40 of the United States Code, relating to the acquisition, operation, and maintenance of the facilities needed for the administration of programs for which the Board is given responsibility under this Act, "(B) all authorities permitted to be delegated under section 111 of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 759), relating to the lease, purchase, or maintenance of automated data processing equipment, and

"(C) the authority to contract for any automated data processing equipment or services which the Board considers necessary for the efficient and effective operation of such programs.

"(2) The Administrator of the General Services Administration shall provide any assistance requested by the Board in assuming the delegations required under paragraph (1).".

"Seal of Office

"(d) The Board shall cause a seal of office to be made for the Administration of such design as the Board shall approve. Judicial notice shall be taken of such seal.".

SEC. 104. TRANSFERS TO THE NEW SOCIAL SECURITY ADMINISTRATION.

(a) FUNCTIONS.—There are transferred to the Social Security Administration all functions carried out by the Secretary of Health and Human Services with respect to the programs and activities the administration of which is vested in the Social Security Administration by reason of this Act and the amendments made thereby. The Social Security Board shall allocate such functions in accordance with sections 701, 702, and 703 of the Social Security Act (as amended by this Act).

(b) PERSONNEL, ASSETS, ETC.—(1) There are transferred from the Department of Health and Human Services to the Social Security Administration, for appropriate allocation by the Social Security Board in the Social Security Administration—

(A) the personnel employed in connection with the functions transferred by this Act and the amendments made thereby, and

(B) the assets, liabilities, contracts, property, records, and unexpended balance of appropriations, authorizations, allocations, and other funds employed, held, or used in connection with such functions, arising from such functions, or available, or to be made available, in connection such functions.

(2) Unexpended funds transferred pursuant to this subsection shall be used only for the purposes for which the funds were originally authorized and appropriated.

(c) ABOLISHMENT OF OFFICE OF COMMISSIONER IN THE DEPARTMENT OF HEALTH AND HUMAN SERVICES.—Effective upon the appointment of all initial members of the Social Security Board pursuant to section 702 of the Social Security Act (as amended by this Act), the position of Commissioner of Social Security in the Department of Health and Human Services is abolished.

TITLE II—MISCELLANEOUS PROVISIONS AND CONFORMING AMENDMENTS

SEC. 201. CONTRIBUTOR AND BENEFICIARY BILL OF RIGHTS.

Title VII of the Social Security Act is further amended by adding at the end thereof the following new section:

"CONTRIBUTOR AND BENEFICIARY BILL OF RIGHTS

"Principles for Implementation of Act

"SEC. 711. (a) The provisions of this Act should be implemented consistent with the following principles:

"(1) All persons should be treated fairly and equitably by the Social Security Board and the Secretary with proper regard and protection for their rights under this Act, their constitutional rights, and their privacy.

"(2) The Social Security Board and the Secretary should not discriminate against persons on account of their age, sex, race, creed, color, handicap, national origin, or economic condition.

"(3) The Board and the Secretary should each maintain prompt, professional, and effective service which is accessible and responsive to the communities and persons which they serve.

"Enforcement of Principles

"(b) In carrying out their responsibilities under this Act, the Social Security Board and the Secretary, pursuant to authority otherwise available, shall take any action, including the issuance of rules, regulations, or directives, which is consistent with the provisions of this Act and which the Social Security Board or the Secretary (as the case may be) determines is necessary to ensure that the administration of this Act is based on and embodies the principles set forth in subsection (a) and that such principles are publicly displayed in each office of the Social Security Administration.".

SEC. 202. AMENDMENTS TO TITLES II AND XVI OF THE SOCIAL SECURITY ACT.

(a) Title II (other than section 201, section 231(c), section 226, and section 226A) and title XVI of the Social Security Act are each amended—

(1) by striking out, wherever it appears therein, "Secretary of Health and Human Services" and inserting in lieu thereof "Social Security Board";

(2) by striking out, wherever it appears therein, "Department of Health and Human Services" and inserting in lieu thereof "Social Security Administration";

(3) by striking out, wherever it appears therein, "Department" (but only if it is not immediately succeeded by the words "of Health and Human Services", and only if it is used in reference to the Department of

Health and Human Services) and inserting in lieu thereof "Administration"; and

(4) by striking out, wherever it appears therein, each of the following words (but, in the case of any such word only if such word refers to the Secretary of Health and Human Services): "Secretary", "Secretary's", "his", "him", and "he", and inserting in lieu thereof (in the case of the word "Secretary") "Social Security Board", (in the case of the word "Secretary's") "Board's", (in the case of the word "his") "the Board's", (in the case of the word "him") "the Board", and (in the case of the word "he") "the Board".

(b)(1) Section 201(a)(3) of such Act is amended by striking out "Secretary of Health and Human Services" and inserting in lieu thereof "Social Security Board".

(2) Section 201(c) of such Act is amended—

(A) in the first sentence, by striking out "shall be composed of" and all that follows down through "ex officio" and inserting in lieu thereof the following: "shall be composed of the members of the Social Security Board, the Secretary of the Treasury, and the Secretary of Health and Human Services, all ex officio"; and

(B) by inserting after the first sentence the following new sentence: "The Chairperson of the Social Security Board shall be the Chairperson of the Board of Trustees.".

(3) Section 201(g)(1)(A) of such Act is amended—

(A) in clause (i), by striking out "by him and the Secretary of Health and Human Services" and inserting in lieu thereof "by him, the Social Security Board, and the Secretary of Health and Human Services", and by striking out "by the Department of Health and Human Services and the Treasury Department" and inserting in lieu thereof "by the Social Security Administration, the Department of Health and Human Services, and the Department of the Treasury";

(B) in clause (ii), by striking out "method prescribed by the Board of Trustees under paragraph (4)" and inserting in lieu thereof "applicable method prescribed under paragraph (4)", by striking out "the Secretary of Health and Human Services" and inserting in lieu thereof "the Social Security Board and the Secretary of Health and Human Services", and by striking out "the Department of Health and Human Services" and inserting in lieu thereof "the Social Security Administration and the Department of Health and Human Services"; and

(C) by striking out the last sentence and inserting in lieu thereof the following: "There are hereby authorized to be made available for expenditure, out of any or all of the Trust Funds, such amounts as the Congress may deem appropriate to pay the costs of the part of the administration of this title and title XVI for which the Social Security Board is responsible, the costs of title XVIII for which the Secretary of Health and Human Services is responsible, and the costs of carrying out the functions of the Social Security Administration, specified in section 232, which relate to the administration of provisions of the Internal Revenue Code of 1954 other than those referred to in clause (i) of the first sentence of this subparagraph.".

(4) Section 201(g)(1) of such Act is further amended by striking out subparagraph (B) and inserting in lieu thereof the following new subparagraphs:

"(B) After the close of each fiscal year—

"(i) the Social Security Board shall determine (I) the portion of the costs, incurred during such fiscal year, of administration of this title and title XVI and of carrying out the functions of the Social Security Administration, specified in section 232, which relate to the administration of provisions of the Internal Revenue Code of 1954 (other than those referred to in clause (i) of the first sentence of subparagraph (A)), which should have been borne by the general fund in the Treasury, (II) the portion of such costs which should have been borne by the Federal Old-Age and Survivors Insurance Trust Fund, and (III) the portion of such costs which should have been borne by the Federal Disability Insurance Trust Fund, and

"(ii) the Secretary of Health and Human Services shall determine (I) the portion of the costs, incurred during such fiscal year, of administration of title XVIII which should have been borne by the general fund in the Treasury, (II) the portion of such costs which should have been borne by the Federal Hospital Insurance Trust Fund, and (III) the portion of such costs which should have been borne by the Federal Supplementary Medical Insurance Trust Fund,

except that the determination of the amounts to be borne by the general fund in the Treasury with respect to expenditures incurred in carrying out such functions specified in section 232 shall be made pursuant to the applicable method prescribed under paragraph (4) of this subsection.

"(C) After the determinations under subparagraph (B) have been made for any fiscal year, the Social Security Board and the Secretary of Health and Human Services shall each certify to the Managing Trustee the amounts which should be transferred from each of the Trust Funds to the general fund in the Treasury and from the general fund in the Treasury to each of the Trust Funds, in order to ensure that each of the Trust Funds and the general fund in the Treasury have borne their proper share of the costs, incurred during such fiscal year, for (i) the part of the administration of this title and title XVI for which the Social Security Board is responsible, (ii) the part of the administration of this title and title XVIII for which the Secretary of Health and Human Services is responsible, and (iii) carrying out the functions of the Social Security Administration, specified in section 232, which relate to the administration of provisions of the Internal Revenue Code of 1954 (other than those referred to in clause (i) of the first sentence of subparagraph (A)). The Managing Trustee shall transfer any such amounts in accordance with any certification so made.".

(5) Section 201(g)(2) of such Act is amended, in the second sentence, by striking out "established and maintained by the Secretary of Health and Human Services" and inserting in lieu thereof "maintained by the Social Security Board", and by striking out "Secretary shall furnish" and inserting in lieu thereof "Social Security Board shall furnish".

(6) Section 201(g)(4) of such Act is amended to read as follows:

"(4) The Social Security Board shall utilize the method prescribed pursuant to this paragraph, as of immediately before the date of the enactment of the Social Security Reorganization Act of 1985, for determining the costs which should be borne by the general fund in the Treasury of carrying out the functions of the Board, specified in section 232, which relate to the administration of provisions of the Internal Revenue Code of 1954 (other than those referred to in clause (i) of the first sentence of paragraph (1)(A)). If at any time or times thereafter the Board considers such action advisable, it may modify the method of determining such costs.".

(7) Section 201(i)(1) of such Act is amended to read as follows:

"(i)(1) The Managing Trustee may accept on behalf of the United States money gifts and bequests made unconditionally to the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, or the Federal Supplementary Medical Insurance Trust Fund or to the Social Security Administration, the Department of Health and Human Services, or any part or officer thereof, for the benefit of any of such Funds or any activity financed through such Funds.".

(8) Subsections (j) and (k) of section 201 of such Act are each amended by striking out "Secretary" each place it appears and inserting in lieu thereof "Social Security Board".

(9) Section 201(l)(3)(B)(iii)(II) of such Act is amended by striking out "Secretary" and inserting in lieu thereof "Social Security Board".

(10) Section 201(m)(3) of such Act is amended by striking out "Secretary of Health and Human Services" and inserting in lieu thereof "Social Security Board".

(c) Section 231(c) of such Act is amended by striking out "Secretary determines" and inserting in lieu thereof "Social Security Board and the Secretary jointly determine".

SEC. 203. OTHER AMENDMENTS.

(a) Section 411 of the Social Security Act is amended—

(1) in subsection (a), by striking out "Secretary" and inserting in lieu thereof "Social Security Board, at the request of the Secretary,"; and

(2) in subsection (b), by striking out "Secretary" each place it appears and inserting in lieu thereof "Social Security Board".

(b)(1) Section 704 of such Act is amended to read as follows:

"REPORTS

"SEC. 704. The Secretary and the Social Security Board shall make full reports to Congress, within 120 days after the beginning of each regular session, of the administration of the functions with which they are charged under this Act. In addition to the number of copies of such reports authorized by other law to be printed, there is hereby authorized to be printed not more than 5,000 copies of each such report for use by the Secretary and Social Security Board for distribution to Members of Congress and to State and other public or private agencies or organizations participating in or concerned with the programs provided for in this Act.".

(2) Section 709(b)(2) of such Act is amended by striking out "(as estimated by the Secretary)" and inserting in lieu thereof ", as estimated by the Social Security Board or the Secretary (whichever administers the program involved),".

(3) Title VII of such Act is further amended by adding at the end thereof the following new section:

"DUTIES OF SECRETARY

"SEC. 712. The Secretary shall perform the duties imposed upon him by this Act and shall also have the duty of studying and making recommendations as to the most effective methods of providing economic security and as to legislation and matters of administrative policy concerning the programs administered by the Secretary and related subjects; except that nothing in this section shall be construed to require the Secretary to make studies or recommendations with respect to programs administered by the Social Security Administration.".

(c)(1) Section 1101(a) of such Act is amended by adding at the end thereof the following new paragraph:

"(10) The term 'Administration' means the Social Security Administration.".

(2) Section 1106(a) of such Act is amended—

(A) by inserting "(1)" after "(a)";

(B) by striking out "Department of Health and Human Services" and inserting in lieu thereof "applicable agency";

(C) by striking out "Secretary" and inserting in lieu thereof "head of the applicable agency"; and

(D) by adding at the end thereof the following new paragraph:

"(2) For purposes of this subsection and subsection (b), the term 'applicable agency' means—

"(A) the Social Security Administration, with respect to matter transmitted to or obtained by such Administration or matter disclosed by such Administration, or

"(B) the Department of Health and Human Services, with respect to matter transmitted to or obtained by such Department or matter disclosed by such Department.".

(3) Section 1106(b) of such Act is amended—

(A) by striking out "Secretary" and inserting in lieu thereof "head of the applicable agency"; and

(B) by striking out "Department of Health and Human Services" and inserting in lieu thereof "applicable agency".

(4) Section 1106(c) of such Act is amended—

(A) by striking out "the Secretary" the first place it appears and inserting in lieu thereof "the Social Security Board or the Secretary"; and

(B) by striking out "the Secretary" each subsequent place it appears and inserting in lieu thereof "such Board or Secretary".

(5) Section 1107(b) of such Act is amended by striking out "the Secretary of Health and Human Services" and inserting in lieu thereof "the Social Security Board or the Secretary".

(6) Section 1110 of such Act is amended—

(A) by striking out "Secretary" each place it appears and inserting in lieu thereof "Social Security Board"; and

(B) by striking out "he", "his", "him", and "himself" each place they appear (except in subsection (b)(2)(A)) and inserting in lieu thereof "the Board", "the Board's", "the Board", and "itself", respectively.

(7) Section 1127 of such Act is amended by striking out "Secretary" and inserting in lieu thereof "Social Security Board".

(8) Section 1128(e) of such Act is amended by inserting after "section 205(g)" the following: ", except that, in so applying such sections, any reference therein to the Social Security Board shall be considered a reference to the Secretary".

(9) Section 1131 of such Act is amended—

(A) by striking out "Secretary" each place it appears and inserting in lieu thereof "Social Security Board";

(B) in subsection (a)(1)(A), by adding "or" at the end thereof;

(C) in subsection (a)(1)(B), by striking out "or" at the end thereof;

(D) by striking out subsection (a)(1)(C);

(E) by redesignating subsection (a)(2) as subsection (a)(3);

(F) by inserting after subsection (a)(1) the following new paragraph:

"(2) the Secretary makes a finding of fact and a decision as to the entitlement under section 226 of any individual to hospital insurance benefits under part A of title XVIII, or";

and

(G) by striking out "he" in the matter in subsection (a) following paragraph (3) (as so redesignated) and inserting in lieu thereof "the Social Security Board".

(10) Section 1155 of such Act is amended by striking out "(to the same extent as is provided in section 205(b))" and inserting in lieu thereof "(to the same extent as beneficiaries under title II are entitled to a hearing by the Social Security Board under section 205(b))".

(d)(1) Subsections (a) and (f) of section 1817 of such Act are amended by striking out "Secretary of Health and Human Services" each place it appears and inserting in lieu thereof "Social Security Board".

(2) Section 1840(a) of such Act is amended—

(A) in paragraph (1), by striking out "Secretary" and inserting in lieu thereof "Social Security Board", and by adding at the end thereof the following new sentence: "Such regulations shall be prescribed only after consultation with the Secretary."; and

(B) in paragraph (2), by striking out "Secretary of Health and Human Services" and inserting in lieu thereof "Social Security Board".

(3) Section 1872 of such Act is amended by inserting after "title II" the following: ", except that, in applying

such provisions with respect to this title, any reference therein to the Social Security Board shall be considered a reference to the Secretary".

(4) Sections 1862(d)(3), 1869(b)(1), and 1869(c) of such Act and the last sentence of section 1876(c)(5)(B) of such Act are amended by inserting after "section 205(g)" the following: ", except that, in so applying such sections, any reference therein to the Social Security Board shall be considered a reference to the Secretary".

(e) Section 1910(c)(2) of such Act is amended, in the first sentence, by inserting after "section 205(g)" the following: ", except that, in so applying such sections, any reference therein to the Social Security Board shall be considered a reference to the Secretary".

(f) Title 5, United States Code, is amended—

(1) by adding at the end of section 5313 the following new items:

"Members, Social Security Board (3).

"Commissioner of Social Security.";

(2) by adding at the end of section 5314 the following new item:

"Deputy Commissioner of Social Security.";

(3) by adding at the end of section 5315 the following new items:

"General Counsel, Social Security Administration.

"Additional officers, Social Security Administration (6).";

(4) by adding at the end of section 5316 the following new items:

"Inspector General, Social Security Administration.

"Additional officers, Social Security Administration (6)."; and

(5) by striking out "Secretary of Health and Human Services" each place it appears in section 8141 and inserting in lieu thereof "Social Security Board".

(g) The Food Stamp Act of 1977 is amended—

(1) in section 6 (7 U.S.C. 2015), by striking out "Secretary of Health and Human Services" and inserting in lieu thereof "Social Security Board"; and

(2) in section 17(d) (7 U.S.C. 2026(d)), by inserting after "Services" the following: "and the Social Security Board".

(h) Section 707 of title 14, United States Code, is amended by striking out "Secretary of Health and Human Services" each place it appears and inserting in lieu thereof "Social Security Board".

(i)(1) Subsections (c)(1), (c)(2)(E), (g)(1), (g)(3)(A), and (g)(3)(B) of section 1402 of the Internal Revenue Code of

1954 are amended by striking out "Secretary of Health and Human Services" each place it appears and inserting in lieu thereof "Social Security Board".

(2) Section 3121(b)(10)(B) of such Code is amended by striking out each place it appears "Secretary of Health and Human Services" and inserting in lieu thereof "Social Security Board".

(3) Subsections (d) and (f) of section 6057 of such Code are amended by striking out "Secretary of Health and Human Services" each place it appears and inserting in lieu thereof "Social Security Board".

(4) Section 6103(l)(5) of such Code is amended—

(A) by striking out "Department of Health and Human Services" and inserting in lieu thereof "Social Security Administration"; and

(B) by striking out "Secretary of Health and Human Services" and inserting in lieu thereof "Social Security Board".

(5) Section 6511(d)(5) of such Code is amended by striking out "Secretary of Health and Human Services" and inserting in lieu thereof "Social Security Board".

(j) Section 3005 of title 38, United States Code, is amended by striking out "Secretary of Health and Human Services" and "Secretary" each place they appear and inserting in lieu thereof "Social Security Board".

(k) The Inspector General Act of 1978 (5 U.S.C. App.) is amended—

(1) in section 2(1), by striking out "and the Veterans' Administration" and inserting in lieu thereof "the Veterans' Administration, and the Social Security Administration";

(2) in section 9(a)(1), by striking out "and" at the end of subparagraph (M), and by adding at the end thereof the following new subparagraph:

"(O) of the Social Security Administration (to the extent provided in the Social Security Reorganization Act of 1985), the functions of the Inspector General of the Department of Health and Human Services relating to the administration of the old-age, survivors, and disability insurance program under title II of the Social Security Act and of the supplemental security income program under title XVI of such Act; and";

(3) in section 11(1), by striking out "or" after "Transportation" and inserting in lieu thereof a comma, and by inserting after "Affairs," the following: "or the Social Security Board,"; and

(4) in section 11(2), by striking out "or" after "Transportation", and by inserting after "Veterans'

Administration," the following: "or the Social Security Administration,".

SEC. 204. RULES OF CONSTRUCTION.

(a) REFERENCES TO THE DEPARTMENT OF HEALTH AND HUMAN SERVICES.—Whenever any reference is made in any provision of law (other than this Act or a provision of law amended by this Act), regulation, rule, record, or document to the Department of Health and Human Services with ~~respect~~ such Department's functions under the old-age, survivors, and disability insurance program under title II of the Social Security Act or the supplemental security income program under title XVI of such Act, such reference shall be considered a reference to the Social Security Administration.

(b) REFERENCES TO THE SECRETARY OF HEALTH AND HUMAN SERVICES.—Whenever any reference is made in any provision of law (other than this Act or a provision of law amended by this Act), regulation, rule, record, or document to the Secretary of Health and Human Services with respect to such Secretary's functions under such programs, such reference shall be considered a reference to the Social Security Board.

(c) REFERENCES TO OTHER OFFICERS AND EMPLOYEES.—Whenever any reference is made in any provision of law (other than this Act or a provision of law amended by this Act), regulation, rule, record, or document to any other officer or employee of the Department of Health and Human Services with respect to such officer or employee's functions under such programs, such reference shall be considered a reference to the appropriate officer or employee of the Social Security Administration.

TITLE III—EFFECTIVE DATES AND TRANSITIONAL RULES

SEC. 301. EFFECTIVE DATES.

(a) Amendments in Title I.—(1) Sections 101, 102(a), 103, and 104 of this Act shall take effect 180 days after the date of the enactment of this Act.

(2) Section 102(b) of this Act shall take effect on the date of the enactment of this Act.

(b) Amendments in Title II.—Title II of this Act shall take effect 180 days after the date of the enactment of this Act, except that subsections (f)(1), (f)(2), (f)(3), (f)(4), and (k) of section 206 shall take effect on the date of the enactment of this Act.

SEC. 302. TRANSITIONAL RULES.

(a) Interim Authority for Appointment and Compensation.—At any time after the date of the enactment of this Act—

(1) any of the officers provided for in section 702 of the Social Security Act (as amended by title I of

this Act) may be nominated and appointed, as provided in such section, and

(2) the Social Security Board, upon nomination and appointment of all of the members thereof, may prescribe regulations providing for the orderly transfer of proceedings before the Secretary of Health and Human Services to the Social Security Board.

Funds available to any official or component of the Department of Health and Human Services, functions of which are transferred to the Social Security Board or the Social Security Administration by this Act, may with the approval of the Director of the Office of Management and Budget, be used to pay the compensation and expenses of any officer appointed pursuant to this section until such time as funds for that purpose are otherwise available.

(b) CONTINUATION OF ORDERS, DETERMINATIONS, RULES, REGULATIONS, ETC.—All orders, determinations, rules, regulations, permits, contracts, certificates, licenses, and privileges—

(1) which have been issued, made, promulgated, granted, or allowed to become effective, in the exercise of functions (A) which were exercised by the Secretary of Health and Human Services (or his delegate), and (B) which relate to functions which, by reason of this Act, the amendments made thereby, and regulations

prescribed thereunder, are vested in the Social Security Board, and

(2) which are in effect immediately before the effective date specified in section 301(a)(1),

shall (to the extent that they relate to functions described in paragraph (1)(B)) continue in effect according to their terms until modified, terminated, suspended, set aside, or repealed by such Board.

(c) CONTINUATION OF PROCEEDINGS.—The provisions of this Act (including the amendments made thereby) shall not affect any proceeding pending at the time this Act takes effect before the Secretary of Health and Human Services with respect to functions vested (by reason of this Act, the amendments made thereby, and regulations prescribed thereunder) in the Social Security Board, except that such proceedings, to the extent that they relate to such functions, shall continue before such Board. Orders shall be issued under any such proceeding, appeals taken therefrom, and payments shall be made pursuant to such orders, in like manner as if this Act had not been enacted, and orders issued in any such proceeding shall continue in effect until modified, terminated, superseded, or repealed by such Board, by a court of competent jurisdiction, or by operation of law.

(d) CONTINUATION OF SUITS.—Except as provided in this subsection—

(1) the provisions of this Act shall not affect suits commenced prior to the effective date specified in section 301(a)(1); and

(2) in all such suits proceedings shall be had, appeals taken, and judgments rendered, in the same manner and effect as if this Act had not been enacted.

No cause of action, and no suit, action, or other proceeding commenced by or against any officer in his official capacity as an officer of the Department of Health and Human Services, shall abate by reason of the enactment of this Act. Causes of action, suits, actions, or other proceedings may be asserted by or against the United States and the Social Security Administration, or such official of such Administration as may be appropriate, and, in any litigation pending when this section takes effect, the court may at any time, on its own motion or that of a party, enter an order which will give effect to the provisions of this subsection (including, where appropriate, an order for substitution of parties).

(e) CONTINUATION OF PENALTIES.—This Act shall not have the effect of releasing or extinguishing any criminal prosecution, penalty, forfeiture, or liability incurred as a result of any function which (by reason of this Act, the amendments made thereby, and regulations prescribed thereunder) is vested in the Social Security Board.

(f) JUDICIAL REVIEW.—Orders and actions of the Social Security Board in the exercise of functions vested in such Board under this Act (and the amendments made thereby) shall be subject to judicial review to the same extent and in the same manner as if such orders and actions had been taken by the Secretary of Health and Human Services in the exercise of such functions immediately preceding the effective date of this Act. Any statutory requirements relating to notice, hearings, action upon the record, or administrative review that apply to any function so vested in such Board shall continue to apply to the exercise of such function by such Board.

(g) EXERCISE OF FUNCTIONS.—In the exercise of the functions vested in the Social Security Board under this Act, the amendments made thereby, and regulations prescribed thereunder, such Board shall have the same authority as that vested in the Secretary of Health and Human Services with respect to the exercise of such functions immediately preceding the vesting of such functions in such Board, and actions of such Board shall have the same force and effect as when exercised by such Secretary.

(h) OPERATION OF TRANSITIONAL RULES IN THE EVENT OF INTERIM AUTHORITY IN THE COMMISSIONER.—For purposes of this section, in any case in which the powers and duties to be transferred to the Social Security Board are transferred to the Commissioner of Social Security (or acting Commissioner) in the Department of Health and Human Services for an interim period pursuant to section 102(b) of this Act, the preceding provisions of this section shall apply with respect to the transfer of such powers and duties to and from such Commissioner (or acting Commissioner) pursuant to such section in the same manner and to the same extent as they would have applied to a direct transfer from the Secretary of Health and Human Services to the Social Security Board if all initial appointments to such Board had been made.

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Chairman JONES. The Social Security Subcommittee will come to order.

I am going to ask unanimous consent to include my formal statement for the record.

[The statement follows:]

OPENING STATEMENT OF CHAIRMAN JAMES R. JONES

Today's hearing will address two separate, but related issues concerning the administration of the social security program and trust funds. First, we will receive testimony on the proposal to make the Social Security Administration an independent agency, contained in H.R. 825, which was introduced by Chairman Rostenkowski, Mr. Pickle, Mr. Archer, and Mr. Roybal in January. This subcommittee received much useful testimony in a hearing last July on the report of the Congressional Panel on Social Security Organization mandated by the 1983 Social Security Amendments. However, in view of the substantial change in membership of the subcommittee, the importance of the subject, and the interest that has been expressed in this legislation by many members of the committee, I think it appropriate to hold this hearing today to review the arguments on both sides of the issue.

The Social Security Administration has undergone repeated reorganizations, depletion of experienced staff at the top levels of the agency, and continual change in the Office of the Commissioner. There have been nine Commissioners since 1973 and the current incumbent has been in an "acting" capacity for over 20 months. This lack of stability in the leadership of the agency, combined with the uncertainty of staff throughout the agency about their functions and the chain of responsibility, can only be detrimental to the smooth functioning of the agency. This concern, I believe, is at the heart of the suggestions to make the Social Security Administration an independent agency with more stability at the top administrative levels. In addition, there have long been allegations that the Department of Health and Human Services performs no useful functions in connection with the administration of the agency, and in fact, undermines sound administrative practices by siphoning off resources designated for SSA, needlessly duplicating budgetary and legislative functions performed in SSA, and failing to obtain necessary support for SSA in office space and resources from the General Services Administration.

Finally, there has been much concern about the extensive and growing control of the Office of Management and Budget over day to day administrative decisions, resource allocations, and data collection efforts, in addition to their expanded control over the regulatory process. This development is by no means restricted to the Social Security Administration, but the subcommittee is concerned about the impact of this intervention in detailed administrative decisions on SSA's operations, and the independent agency legislation before us apparently attempts to give SSA some greater independence from OMB as well. This is an important policy question, and the relationship between SSA and OMB must be carefully considered before legislation changes are made.

It must be said, however, that OMB's own insulation from public pressure can produce startling results in their directives to Government agencies. The 1986 President's budget has already shown us the effect of an OMB decision to arbitrarily reduce SSA's staff with little thought for how such reductions could possibly be achieved without destroying public service and employee morale. It is not sound public policy or administrative practice to have important administrative decisions made by an office that is not directly accountable to the Congress or the American people. The only direction that SSA should move in, therefore, is toward greater public accountability. We must examine this proposal very carefully to see whether an independent agency would accomplish that purpose, or whether it would result in isolating the agency from the complaints and concerns of the people it is meant to serve.

The other issue before us today is the removal of the Social Security trust funds from the unified budget. Currently the trust fund operations are a part of the unified budget, but the 1983 amendments require that they be moved off budget in fiscal year 1993. This issue has substantial political as well as budgetary implications, and many have suggested that the trust funds be taken out of the unified budget earlier than 1993, in order to remove the Social Security program from the annual budget debates concerning reductions in Federal spending. There has also been substantial confusion about the current relationship between Social Security expenditures financed by the payroll tax and the overall budget deficit.

Our hearing today is aimed at clarifying the current role Social Security trust fund operations play in the overall Federal budget, and laying out the arguments on both sides for removal or retention of the trust funds in the unified budget. These programs account for almost one-third of all Federal outlays, and it does not seem likely that simply changing the accounting practices of the budget will either disguise that fact, or insulate Social Security from budget discussions. We should also bear in mind the impact growing Social Security surpluses will have on the budget and the deficit: If retention of the trust funds in the unified budget results in hiding the size of the deficit in the rest of the budget, substantial questions will be raised in 1992 when the deficit "cover" is removed. This issue involves complex policy and fiscal questions, and the subcommittee will be most interested in receiving the views of the administration, the Congressional Budget Office, and our other witnesses on this very important subject.

Chairman JONES. I would like to point out that today's hearing pertains to two subjects that are somewhat related. First of all, to discuss legislation to make the Social Security Administration an independent agency, and then, second, to discuss the issue of taking the Social Security budget out of the unified budget by the end of 1993.

Let me say from my standpoint I am not a cosponsor of the legislation to create the independent agency, but I have very much an open mind. I think the testimony that came out in the Social Security Subcommittee last year offered some very persuasive arguments about the need for continuity and stability within the agency, and that this could be achieved, perhaps, by taking the Social Security Administration out of HHS and placing it in an independent status.

I am also concerned about the other side of the coin, however, because we have done similar things in the past. One such example was the Postal Corporation, and I want to be sure that, if we move in the direction of independence for SSA, we do it in such a way that those constituents who have problems with the administration of this very necessary program can come to Congress and we will be able to have some effect in correcting their problems. I know that I get frustrated when a constituent has problems with the Postal Corporation and, in effect, the Postal Corporation can say, "buzz off," and as a result of that independence, we are unable to render any kind of assistance to that constituent. So that is the caveat I have about this issue.

We are looking at it, and I look forward to the testimony that we are going to receive today.

The first witness whom we are going to hear is one of our colleagues in the House, Mr. John Porter, a Member of Congress from Illinois.

John, welcome to the subcommittee. Your statement will be included in its entirety, and I urge you to summarize. We look forward to hearing from you.

STATEMENT OF HON. JOHN EDWARD PORTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. PORTER. Mr. Chairman, thank you for the opportunity to testify before your subcommittee this morning.

Government is forever putting out fires, dealing with crises on a short-term basis. Its inability to look ahead and deal with the long-term needs of our Nation is all too well known. For this reason, I would like to use the occasion of this hearing to comment not just on the proposals at hand, but on the overall question of Social Security.

In particular, I would like to focus attention on the uncertain retirement prospects facing a segment of our society we care about deeply.

I am talking about our children. Our grandchildren. The young people who will guide America—and preserve its freedoms and its blessings—through the first half of the 21st century.

Too frequently, when hearings on Social Security are held, no one comes forward to speak on behalf of America's young people. It is with this in mind that I offer my testimony this morning.

Mr. Chairman, if this subcommittee were to survey young Americans' views about Social Security, I expect you would not be pleased with what you would find. Few expect Social Security to treat them as generously as it has their grandparents—or as it will their parents. Many pay more in Social Security taxes than they pay in all other Federal taxes combined—yet they worry whether, when they retire, they will get back anywhere near what they put in.

Some young Americans do not even think Social Security will exist when they are senior citizens—or, if it does exist, they fear it will be means-tested and will exclude those who have set aside their own nest eggs, penalizing the exercise of personal responsibility.

These young workers face a dilemma. Should they save on their own and risk disqualifying themselves from Social Security when they retire, or should they rely heavily on the continued existence of a program they fear could collapse just when they need it?

Mr. Chairman, we in the Congress might try to reassure young people that Social Security will never break faith with any generation of Americans. But do we know this for sure? How do we know what some Congress in the 21st century might be tempted to do, or compelled to do, in the face of a system approaching bankruptcy?

Consider these facts:

The Congressional Research Service projects that a young boy can expect to receive back as little as 72 cents, and a young girl as little as 92 cents, on average, for every dollar he or she contributes in payroll taxes.

In 1990, the maximum payroll tax for young workers will be 65 times what today's 65-year-olds paid when they entered the job market.

Today's infants may have to pay up to 40 percent of their incomes in payroll taxes, above and beyond income taxes, to keep Social Security and Medicare benefits at current levels, once today's baby boom generation reaches retirement age.

By the year 2050, Social Security and related programs could consume as much as 70 percent of the Federal budget, unless the budget is allowed to grow to a much higher percentage of GNP than it is today. If present-day deficits continue much longer, the other 30 percent might have to be spent on interest charges for the national debt.

The long-term outlook for Social Security depends, in part, on whether the future resembles what planners have labeled optimistic or pessimistic economic and demographic scenarios. The optimistic scenario assumes annual increases in worker productivity greater than we have ever seen in American history. Even the pessimistic scenario—which forecasts colossal Social Security and Medicare deficits in the 21st century—assumes long-term real wage growth above, and unemployment rates below, what we experienced over the past 15 years.

Social Security already has, at presently mandated benefit levels, an unfunded liability of over $5 trillion. That is $5 million, or three times the size of our current national debt. That unfunded liability would not be a problem, if our population and real wage levels each grow rapidly enough. But neither is likely to grow at a fast enough rate to ensure that Social Security will remain solvent through the lifetimes of today's children.

The fact is today's young adults will probably live longer, be less affluent, and have fewer children and have them later than Government actuaries originally expected. As these baby boomers reach their seventies and eighties, they will have serious financial needs and relatively few adult children to help pay for those needs. Let there be no mistake. Social Security will face a crisis of unbelievable proportions following the year 2020.

The founders of Social Security made a fundamental mistake, in my judgment, when they failed to create a vested system right from the start. Instead, they created the illusion of a trust fund. But there was, and is, no trust fund. A trust fund should be like a savings account. The Social Security Trust Fund is, instead, like a checking account. It taxes here and gives benefits there. The size of benefits payments at any given time mainly reflect the amount of taxes collected, and only indirectly reflect the sum of an individual beneficiary's own contributions to the trust fund.

In the 1960's and 1970's, as the baby boom surged into the work force, Congress had its best opportunity to convert Social Security into a vested system—or, at least, some other system that could last over time. But that chance was wasted. Instead, Congress took advantage of the expanding tax base to create new programs and raise benefit levels, without establishing long-term funding stability for the original Social Security concept and, of course, without thinking about the long-term costs of these new programs and higher benefit levels.

So here we are today, with what amounts to a pyramid scheme, a chain letter across generations. The sooner you got in line, the less you paid in and the more you got back. Those first in line paid nothing in. Those last in line—maybe that will be today's children or their children—could get relatively little back. If the rules are changed and Social Security never becomes means tested, many could get nothing back.

Mr. Chairman, if you and I formed a private company that did this, we would commit a crime and be subject to prosecution. Yet, it is on this kind of system that our children and grandchildren must stake their long-term economic future. This is unconscionable.

To this must be added the burden of the national debt which, by the end of our stewardship, could exceed $3 trillion. Pile onto this the unfunded liabilities in civil service and military pensions, and we are leaving our children with a debt and unfunded liability burden of close to $10 trillion. That is a sum beyond human comprehension. Think of it as close to $200,000 for every American under the age of 25.

Never in the history of our Nation, and perhaps never in the history of the world, has one generation left its children with such a huge debt. Our parents lifted America out of the Great Depression and led the Nation to victory in World War II. They had to borrow to do this. Yet the debt burden they passed on to us, their children, was tiny—almost negligible compared to what we are passing on to our own children.

Mr. Chairman, it is time we were much more candid with young Americans. If Social Security is not likely to provide them with a decent retirement income, they need to know that now. That way they have fair warning at least. They can save on their own, and begin making additional arrangements for retirement.

This hearing focuses on the more narrow issues of whether the Social Security Trust Fund should be removed from the unified Federal budget, and whether the Social Security Administration should be converted into an independent agency. I oppose both of these changes.

Taking either action would, in my judgment, reinforce the impression of long-term security that could mislead our young people, and encourage them to place more reliance on Social Security than they reasonably should. If this were a trust fund in fact as well as name, I would support both proposals. But it is not, so I cannot.

From a financial management standpoint, separating Social Security from the rest of the budget would be a serious mistake. Any surplus or deficit in the Social Security and Medicare account directly affects Federal borrowing. Anything that affects borrowing influences interest rates, and that, in turn, affects the Federal budget. So it is wrong, in my judgment, to say that Social Security has nothing to do with Federal deficits.

Let me quote from an excellent statement I would like to submit for the record, authored by Jack Meyer of the American Enterprise Institute:

> The impact of taking a dollar out of Government spending is the same irrespective of whether that dollar would have been spent for an increase in Social Security benefits, national defense, or some other program area. Any dollar cut means a dollar less that the U.S. Government must borrow. Since we must reduce Treasury borrowing requirements from levels implied by our current path, we should not buy arguments suggesting that some dollars don't count in this effort. In this game, a dollar is a dollar.

While I consider the subject of today's hearing to be important, Mr. Chairman, I hope it does not divert attention from the core problem of Social Security: The long-term threat—indeed, the likelihood—that some future Congress may be unable to keep the program healthy for the benefit of today's young people when they reach retirement age.

I urge this subcommittee to hold a hearing on the long-term future of Social Security as it will affect today's children and young adults.

Solving the problems I have outlined will be difficult, controversial and expensive—that is, if we start now. If we wait another 20 years, if we wait until the ultimate crisis hits, these problems may be impossible to solve.

So let us start working today on a bipartisan basis to lay the groundwork for a secure economic future, and to offer prospects for a decent retirement for young Americans.

Thank you, Mr. Chairman.

Chairman **Jones**. Thank you very much, Mr. Porter.

Let me welcome Mr. Myers to the subcommittee. I compliment you again as one of the professors who appeared before the Ways and Means Committee at its symposium on Medicare. You made a very fine contribution to that effort.

First of all, Mr. Porter, let me comment. The subcommittee is undertaking the study and will be undertaking hearings on the relationship of private pension systems to Social Security. I think it is a very legitimate question, and we have to look at it, and any potential conflict. There is a generational conflict that we have to be concerned about which could continue into the next century, when the ratio of working to retirement population narrows considerably. We have the statement that you are opposed to the Social Security Administration becoming independent, or being taken out of the unified budget, and that is noted.

I would like to ask you about the question of unfunded liability that you raised in your testimony. That is the problem, of course, which plagues most retirement programs, whether they are public or private pension programs: The unfunded liability caused by a whole range of problems, including a change in demographics—that is something we should be concerned about.

I think my question to you, specifically on Social Security, is what would you suggest we do to solve this problem of unfunded liability? You were talking in terms of making it voluntary or reducing the benefits?

Mr. **Porter**. I think we need to think right now, Mr. Chairman, about making this into a vested funded system. I realize that sounds like a radical proposal, and I also understand the huge cost it would involve and the time to phase it in it would take. But it seems to me that the problem of Social Security is that the young people in this country are losing faith that it will be there for them. And it seems to me if we begin now with a system that is funded, where each employer and employee pays into an account that is owned by that employee that is not available to the employee until retirement, to be sure, but is owned the same way a Keogh investment is owned by those contributing to that plan. And it builds up over the entire life of that worker, and it is available as a retirement annuity upon retirement age. Then I think we will have created for the people in this country a system that is truly sound, secure, and not subject to tampering with by the Congresses in the future where the proclivity to do so has been evident since 1935.

I realize the cost of it. It would take a long time to accomplish it.

Chairman **Jones**. Would you eliminate the restriction on how those funds could be invested?

Mr. **Porter**. There would have to be restrictions similar to Keogh investments.

Chairman **Jones**. But you would not just isolate those investments to Government securities?

Mr. **Porter**. No; I think there could be some latitude to the most secure investments in our society. I think it would also provide a tremendous pool of savings that would help us not only carry the deficits that we seem to have such proclivity to carry, but to help capital investment that is so important to our economy's growth.

Chairman **Jones**. I am puzzled about the concern of people in their twenties and thirties. To keep spreading the rumor that Social Security will not be there for them is not correct; the fact is that you get out of Social Security everything that you paid into it, in your first 18 months as a beneficiary. What we are really talking about is a social contract. And I am concerned that, even if we follow the course that you are taking, some future Congress might not break that social contract. I am not sure that that would stop the rumors or quiet comments that Social Security will not be there for this younger generation. But it is a problem, and it is producing a lack of confidence in the whole system.

Mr. **Porter**. Mr. Chairman, if you have a bank account, a bond investment, or U.S. bond investment that your name is on, that is there. You can see it. You can put your hands on it. You understand if you have a promise from a Government that is due to come to fruition 45 or 50 years later, that is not there, you cannot see it, and especially it is not there when you think there is not any trust fund. There is just a checking account, and who knows what the demographics and growth rate will be down the line when retirement comes for young people today. I can understand their thoughts.

Chairman **Jones**. Except for the fact that I have many constituents who have their name on accounts at Penn Square Bank; they have lost thousands of dollars. Yet, they seem entitled to get that money.

Mr. **Porter**. In any case, the Federal Government is the guarantor, Mr. Chairman.

Chairman **Jones**. The whole thing is the full faith and credit in the United States, if there is no confidence in it. What we are really talking about is whether we are going to fulfill that social contract, whatever the form. I wish I had the words to convince younger people that future generations of Americans are not going to be less respectful of the elder Americans. It is a tough problem. Mr. Crane.

Mr. **Crane**. Thank you, Mr. Chairman, and I would like to congratulate my colleague and neighbor on his testimony.

Let me ask you seriously, John, if you were 25 years of age today, looking at the past performance of the Congress in dealing with this problem, would you anticipate getting Social Security benefits upon retirement?

Mr. **Porter**. No; I think I would be planning my own retirement and not relying on Social Security, figuring that if I got something back, fine, but I had better not rely upon it. And I think that is what young people are doing.

Mr. **Crane**. I would not blame any youngster for taking that attitude.

It seems to me that in this most recent Social Security reform that we made a rather radical departure from the original concept by dipping heavily into general revenues to get us through this decade and, secondly, establishing a means test for eligibility.

Now, my understanding was that FDR said that if general revenues were used to fund the program, he would have vetoed the original legislation. We have severed that nexus that historically existed by taking that step. And I think the means test for eligibility that was applied, $25,000 for an individual and $32,000 for a couple, taxing benefits in excess of those figures, suggests that we have taken a giant step in really altering Social Security and making it a bona fide welfare plan.

Do you think, looking at how we have addressed budgetary problems so far, there is not a reasonable expectation today that there will be an increasing reliance on general revenue financing in the future, if there is not some fundamental restructuring, and simultaneously a lowering of the level of outside income through other retirement programs. You know, they are taxing everything over $10,000, whatever the poverty level is, and relying on general revenues and just calling it a form of welfare in retirement years.

Mr. **PORTER**. I agree with you. And I think when we sit here and say for those people who this year for the first time paid taxes on some of their Social Security benefits, the faith and credibility of the United States was that anybody would not pay taxes on their Social Security benefits. And everybody got their benefits back and they were not taxable, and that certainly some people would be taxed and other people would not, and how good is our credibility and how good is our faith when we change the rules after 45 or 50 years of paying into the fund?

Mr. **CRANE**. I saw a Kiplinger report looking at the year 2045, and it was kind of entertaining looking at today's 5-year old reaching retirement if you postulate according to Kiplinger's analysis, a 4-percent rate of inflation every year between now and the year 2045, and you assume also a 5-percent annual increase in wages, by 2045 the maximum annual Social Security benefit annually would be $250,000.

It seems to me that what the Congress is doing is trying to tell the American people something about Social Security and, in fact, our entire economy. And by the year 2045, AD, if that scenario unfolded, that $250,000 would buy the cheapest compact car on the road, and the price of a median income home would be $20 to $30 million.

I thank you for your testimony, and I confess we have got a thorny problem to cope with.

Chairman **JONES**. Mr. Crane, as far as calling on other members of the subcommittee, those that are here in the order of seniority at the beginning of the hearing get called on.

I am going to call on Mr. Gregg now.

Mr. **GREGG**. Thank you.

John, if you went to a vested program as you are suggesting, since the Social Security fund is presently on a current basis, as you are pointing out, you are talking about raising a phenomenal amount of taxes.

Mr. **PORTER**. Over 50 years, the unfunded liability is $55 trillion. We're talking about a lot of money, no doubt about it. And it would have to come from another source. And I am suggesting though that if we do not address this problem now, it can only get worse in the future. It can only get worse. And somehow it has got to be addressed.

The entire scheme could run out at some point in the future, and it seems to me that when we are talking about faith, what we want to do is establish something that cannot be changed between generations and is a visible investment for the individual, a far better system than we have right now. It will cost quite a bit of our resources, and I think it will be well worth it. And I said earlier the effect from increasing the savings pool in the United States would probably be a good one.

Mr. GREGG. Thank you.

Chairman JONES. Mr. Daub.

Mr. DAUB. When you read what FDR said about this system when he signed the bill, to paraphrase he said there will never be another person on welfare. If you paid in, you took out. If you did not pay in, you did not take out. And it was not supposed to be talked of in terms of a sole retirement base. It was to be one leg of a three-legged dairy stool, get your house paid for, have some savings, and have some Social Security.

As my colleague pointed out, the enormity of your idea in terms of how it is funded, make it a thorny problem to say the least.

Mr. PORTER. But not an insurmountable problem.

Mr. DAUB. What if, at the age of 50, the person who had been paying in would be given an option, assuming the worker had a Keogh or IRA in place, that would entitle one to a lesser contribution to the workers' trust fund, and certain benefits amortized by a fair use of the trust fund, at age 67. What about splitting your idea, instead of trying to reach for it all?

Mr. PORTER. Absolutely. You would undoubtedly want to have some system that had some option and reduce the benefits for those who switched to the new system. I would frankly tell you that if you made such a system available to people at age 25 right now on the condition that they give up any claim on our existing Social Security benefit system and simply go under this system immediately, I think a good majority of them would do so. That is how poor the credibility is of our present system.

Mr. DAUB. I was talking to some of our colleagues in the German Parliament some days ago. Of course, they are lawyers, accountants, and they opted out, but everybody else is mandatorily in, depending on their circumstances as I understand it. My father said—he is 74: "If I had not been forced to pay in all these years, I would have saved that money and I would be a millionaire now."

The first thing I say is that all the money saved, not paid into Social Security, and a bushel basket of money would buy you a loaf of bread, given the inflation rate, whether it is this trust fund or anything else.

Why do you think that some other plan is going to end up having any consequence different than what we have been involved in now?

Mr. PORTER. Well, at least it would allow a variety of investments. It would give the opportunity to overcome the effects of inflation in some instances. I think it can be designed to do that. Yes.

We have certainly the responsibility to hold the line on inflation on any plan, and it threatens any plan that you structure.

Mr. **Daub**. I certainly appreciate my big brother's testimony and his constructive work.

Mr. **Porter**. May I leave one thought with the committee.

If you are going to spin off Social Security into an independent agency, presumably you have got to spin off taxing authority also, or otherwise it remains a budgetary item. And how can we constitutionally give to an independent agency taxing authority that can only exist in the hands of Government? I just leave that thought.

Chairman **Jones**. Thank you very much.

Now we come to our colleague on the Ways and Means Committee, Mr. Byron Dorgan.

STATEMENT OF HON. BYRON L. DORGAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. **Dorgan**. Thank you, Mr. Chairman. I will be very brief.

First, let me say I am a big supporter of the Social Security system. I think it is a good system. I think it is one of the finest strokes of public policy we have seen in this country and its history.

I was on a helicopter once that ran out of gas in Honduras, and we landed rather quickly. And I learned something about Social Security on that landing. A lot of the campesinos came to see what had come down, and I got to talk to them. And I asked the woman how many children they had, and a young woman in her early twenties replied that she only had four and she seemed somewhat disappointed by that. And I asked some people why would she seem disappointed at having only four children at the age of 23 years. They said in Honduras, where poverty is so rampant and where we have no programs for support, the need is to have as many children as you can during your childbearing years so that enough of them survive to provide you some care in your old age. That is their Social Security.

We have a Social Security system that we put in place 50 years ago in 1935. I think it is a pretty good system when we did it. Some critics say "A decade or two decades from now there is not going to be any Social Security around; this thing is going to go broke." They have been saying that for decades, ever since the Social Security system was created. And today we have got millions of Americans that receive Social Security checks from a program that I think is a good program, and that check, in many instances, is what allows them to lead a dignified life. And I am here today for a very specific reason.

When we debated the Social Security bill some years ago, I offered an amendment that took the Social Security system out of the unified budget in fiscal year 1989. In order to get that amendment passed, I had to agree to an end date of fiscal year 1993. I have since offered legislation in Congress to move that up to fiscal year 1986.

As the Chairman knows, the notion of taking it out of the unified budget was adopted by the Ways and Means Committee, was a part of the Social Security bill that was enacted into law. But it does not occur until fiscal year 1993.

I happen to think that the Social Security system ought to be restored to a separate trust fund status as it was in the first 35 years of its existence. From what we hear and what we think, President Johnson wanted to merge Social Security into the unified Federal budget, ostensibly to make his Vietnam expenditures look smaller by comparison. And that seems to be the motivating force, at least if you read much about it, for including the Social Security system into the unified budget.

I said 2 years ago that I feared having the Social Security system in the unified budget would persuade some at some point, and it has happened much earlier than I thought, to attempt to use revenues from the Social Security system as an offset to expenditures in other parts of the budget.

If you take a look at our budget today in the U.S. Government, that budget proposed by the President and the budget adopted by the Congress for increasing spending in the military budget at a rather rapid pace, we are not increasing revenues to compensate for that. We have had some cuts in the revenue base but in one area of spending we have had dramatic increases; that is the military side.

The attempt, I think now, is to suggest that there are revenues over here on the Social Security side in the unified budget that can be used as a comparable offset against expenditures over on the military side. I think that is crazy. That does not make any sense, and I do not think that we ought to be making adjustments in Social Security for any reason other than our judgment about what kind of increase ought to be given Social Security recipients relevant to the Social Security system. We ought to adjust the nozzle that moves money out on the basis of what kind of money we have coming in and on the basis of needs existing, not on the basis of whether we need an additional battleship or Trident II Missile over in the military budget.

In summary, I would like very much to encourage your subcommittee to initiate the effort to move the Social Security off the unified budget much more quickly than it was scheduled to have gone off under current law. I think that will allow members of the executive branch and legislative branch to make budget decisions in a way that is proper, and evaluate spending decisions and revenue decisions in the way they should be evaluated.

So I am here to give encouragement to you, Mr. Chairman, first to enact an independent agency bill. I do support that. But second, I especially want to give encouragement to move the Social Security out of the unified Federal budget in fiscal year 1986.

[The prepared statement follows:]

STATEMENT OF HON. BYRON L. DORGAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. Chairman: I am testifying today in support of legislation to speed up the date at which Social Security is moved off-budget. I want to commend you and members of the Social Security Subcommittee for holding these timely hearings to preserve the integrity, independence and strength of the Social Security system.

COMMONSENSE AND BUDGET RESTRAINT

The top item on the congressional agenda this year is getting control of the federal deficit. Unless we get serious about budget deficits, we can expect a future of high interest rates, more record trade deficits, and more farm foreclosures. But I believe in controlling the deficit without misusing Social Security funds. President Reagan was absolutely right (in principle) when he said that Social Security has "nothing to do with balancing a budget or erasing or lowering the deficit." Unfortunately, that advice has been forgotten in both the past and present.

In the late 1960s President Johnson proposed bringing Social Security into the unified federal budget from its position as an off-budget, separate trust fund. It was generally understood then that he was trying to create a larger "unified" budget that would make the growing spending tab for the Vietnam War seem less onerous.

The danger in keeping Social Security in the unified budget is the temptation of using Social Security revenues to help offset government overspending in such other budget accounts as defense. That's exactly what some are proposing to do today.

Willie Sutton used to say that he robbed banks because, in his words, "That's where the money was."

Using the same type of logic, the Senate Budget Committee has developed a plan which effectively helps to pay for increased military spending by using the surplus in the Social Security trust fund. The White House and the Senate majority leadership have signed off on a similar COLA freeze plan. I think both are wrong and unwarranted.

Some Senators said they were cutting Social Security COLAs because they favor a "budget freeze." Well, this issue has nothing at all to do with a budget freeze. The Social Security system generates revenues through a dedicated tax program that cannot be used for anything other than paying Social Security benefits. However, as long as Social Security remains locked into the unified federal budget, some politicians will want to shift trust funds to make the federal deficit appear lower than it really is.

That's a practice we need to stop right now.

KEEPING FAITH WITH SENIOR CITIZENS

So we must resist the temptation to balance the budget with Social Security trust funds. That revenue represents the employee and matching contributions of future retirees—not federal largess for any program running short on cash. We must not break the government's contract with working people and senior citizens. People should be able to plan for retirement without being buffeted by budgetary flim-flam.

Social Security COLAs should be paid on the basis of need and on the basis of whether there is money in the Social Security system to pay those benefits. The 1985 Annual Report of the Board of Trustees of the Social Security Insurance Program shows that the trust funds "will be sufficient to pay Old-Age, Survivors, and Disability Insurance benefits on time well into the next century.

SPEEDING UP SEPARATE BUDGET TREATMENT

A change that I sought, with the support of the Ways and Means Committee, in the Social Security Amendments of 1983 already mandates that Social Security be removed from the unified budget in FY 1983. But by then, the prospects of continued federal deficits and growing Social Security trust funds surpluses may make that separation impossible. Recent attempts to tamper with the Social Security trust funds already suggests a greater future problem.

Consequently, I have introduced a resolution, H.J. Res. 78, which would freeze spending across the board—after first removing the Social Security and Medicare trust funds from the unified budget. I want to urge the Subcommittee, Mr. Chairman, to support this measure along with other efforts to insure the independence and integrity of the Social Security system.

In conclusion, we must tear up the government's credit card without breaking our promises to the holders of Social Security cards. Using Social Security to finance over-indulgent defense spending s sleight of hand that will cheat senior citizens and do nothing to solve the real budget problems. Let's get Social Security out of the federal unified budget and end the temptation to play budget games with retirement trust funds.

Thank you, Mr. Chairman, for your leadership in insulating Social Security from policy chicanery. I would welcome any questions from you and subcommittee members.

Chairman **Jones**. Thank you very much, Mr. Dorgan.

The question is a legitimate question, whether we should separate out parts of the agency and start parceling out trust funds, and Special Commission Programs, and what have you. It is a problem that has plagued the Government, and it is a legitimate question you have raised.

Mr. Gregg.

Mr. **Gregg**. I think he has hit one of the key philosophical arguments that has to be addressed by the committee.

If you recall your logic relative to the effect of raising taxes for Social Security the purpose is not to use those taxes for defense, then you are essentially saying that there is no finite point at which Government should not tax the economy. If you pick any finite point, whether it be 24 percent or 20 percent or 19 percent or 30 percent as being the maximum amount the Government should take out, once you predict that finite point, you would have to agree that taxes that are raised are fungible as they apply to that percentage; and whether they are raised for military or Social Security, they are still coming out—they are fungible, and they are transferrable, and they all add up to preset finite points. I take it from your arguments that you are basically asserting that there is no point at which Government should not go beyond in taxing relative to the gross national product.

Mr. **Dorgan**. Well, I do not recognize that argument, so apparently I did not make it.

I would say this to you, the issue is not at this point how large a revenue base there ought to be. The issue is expenditures, and that is why we are involved in this discussion today between the Senate and the White House. I assume that discussion will reach the House of Representatives soon about what level shall be COLA be in Social Security vis-a-vis expenditures in other parts of the budget. We are not talking about the revenue question. The fact is, we do not have enough revenue at this point, and the one point I would agree with, one of the previous comments from the panel is that if we do not get this fiscal house in order, the fiscal house that has been built jointly by Congress and President Reagan, yes, we are going to have some questions about whether we are going to be doing anything very positive in the years ahead. There is not a way at the present to keep that house in any order.

Mr. **Gregg**. Do you think there is a limit to the revenue base?

Mr. **Dorgan**. Sure there is an upper limit. I do not know precisely what it is.

Mr. **Gregg**. Once you accept there is an upper limit to the revenue base, do you think whether or not taxes are raised for Social Security or defense, you are limited to that amount of tax revenue? Is that correct?

Mr. **Dorgan**. We are far from the base at this point, far from the ceiling at this point. You are talking about a revenue ceiling. I do not think anybody in Congress could argue very effectively at this point if our expenditures needs are where a conservative President has put them for a long time; that a revenue base that is $188 billion short of that is certainly not the ceiling on revenues that can be raised in our economy without injuring the American economy.

Mr. **GREGG**. I guess that is where we get into our discussion, is it not?

Mr. **DORGAN**. Right.

Chairman **JONES**. Any further questions?

Mr. Daub.

Mr. **DAUB**. I appreciate my colleague. I guess I would agree.

Up until this era of 1980, I always felt Social Security was underpinning the stability of America. We did some work in 1983 in trying to get the program back in perspective, what it meant for workers, for the retirement program, a social retirement program, if you will.

When you look at deficits that doubled under the previous administration, and now have doubled under the first 4 years of this administration, and look at defense spending in terms of entitlements going up, we start to agree with the second point you made: What the COLA clause relationship of the debate, base plus two percent in the COLA's and base plus 3 percent in DOD spending gives us. I want to commend you for your idea that we move the Social Security trust fund back off line. The general budget is an inappropriate way to really budget black ink here, a lot of red ink there; and in order to dilute the red ink, you move it over here for a while. I think we are going to have to make tougher decisions, because a dollar is a dollar; and I agree with my colleague that there becomes an upper limit, and the rate base continues to go up, there is 114.35. So I think that your points are well taken, and I just hope that we study carefully together this idea of the revenue limit that my colleague raises; because if that is the real line, I think your idea of moving it off line will be safe and secure.

Mr. **DORGAN**. Mr. Chairman, let me make this final point. I am not here as a Member of Congress saying that I demand that there be *x* percent increase in the Social Security COLA. That is not my intent. I am willing to make a tough choice. I just do not want us to make the decision about Social Security COLA's based on how many Trident II missiles and Trident submarines someone wants to build for this Government. That is exactly what happens when you have Social Security in the unified budget.

Chairman **JONES**. Mr. Dorgan, would you agree that other trust funds, such as the Highway Trust Fund, the Airport Trust Fund, et cetera, should be moved out of the budget? What would be the difference?

Mr. **DORGAN**. Mr. Chairman, I have not studied all of the budget issues that you have; but the reason I focused on the Social Security trust funds is that for the first 35 years of its existence it was deemed proper to be a trust fund, and despite what you said, there is an assumption that it was moved in 1960's for cosmetic reasons. I understand the notion about budget concerns by those who are in budgeting, but I think the historical position of the Social Security system as a separate trust fund placed that position outside of considerations of revenue and expenditures and other parts of the budget. I think that is the way it ought to be.

Now, as you know, other trust funds are relatively small as compared to the Social Security trust fund, and I do not have the budget expertise that you do. But I do have the strong feeling that the Social Security system ought not to be where it is.

Chairman JONES. Thank you very much.

I am going to ask my next three congressional witnesses to come to the table together. I know they have time restraints.

Mr. Pickle, Mr. Tauke, and Mr. Young, if you will come forward and summarize your statements.

Mr. Pickle, if you will, summarize your comments. You are the author of the legislation on making SSA an independent agency. I will hear from you first.

STATEMENT OF HON. J.J. PICKLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PICKLE. Mr. Chairman, you are very kind to provide us time to make our statements.

I am particularly pleased to appear before this distinguished subcommittee which has made such a great record for itself here in recent years. It is a great pleasure.

I have introduced a bill that would establish Social Security as an independent agency, and I think it is time that we take this step. We need to restore confidence in people's minds, that the deductions from their wages, that that money will be in the trust fund, and we need to restore confidence to the individual contributors that we are not playing politics with the system. I think it is time to go ahead and try to restore this confidence, particularly in our young people, that the trust fund will be there.

It seems to me that we should establish Social Security as an independent agency and remove it from politics. It will always be in politics, whether it is an independent agency or run through a board or a commission, you are going to have some politics, and that is not bad, but we ought to keep that at a minimum the best that we can.

I think in establishing an independent agency we must look at what we passed already the bill in 1983. Then we removed it from the unified budget in the future. We were thinking about the solvency of the system, and it was separate and apart from this issue of an independent agency. We were solving, the stability of the system from a financial standpoint. Now, you get back to the administrative standpoint; should we go ahead and make it an independent agency? I think it follows, and I will make two reasons in addition; and I will ask that my full statement be made a part of the record.

In the last 12 years we have had nine different Social Security Commissioners. Nine in twelve years. We have had one now who is Acting Commissioner for nearly 2 years. It seems to me that is a measurement of the constant changing of administration of the system that ought to have more stability than the system we have; and it just seems to me like that is indicative of the constant movement of this program.

Another thing is, whoever is the Commissioner with Social Security, I do not care, Democratic or Republican, regardless of the administration, once that commissioner makes a recommendation he or she cannot say this ought to be a change. Instead that recommendation is made down the street to the HHS, and then to the second HHS office, and up to then the department head in HHS, if that person was making a decision on it. Then it is bucked down to the White House, or it goes to OMB, and by the time a recommendation is made it goes through all these natural channels. That must be a dozen different stops. It makes it very difficult to get anything done. I think you would have better administration if you made the Social Security Administration an independent agency.

So I, therefore, favor that step be made.

Thank you, Mr. Chairman.

Chairman JONES. Thank you very much, Mr. Pickle.

[The prepared statement follows:]

STATEMENT OF HON. J.J. PICKLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, earlier this year I, along with several of my distinguished colleagues introduced H.R. 825, a bill to establish the Social Security Administration as an independent agency. I continue to support such a step because I believe such an administrative reorganization is necessary if we are to ever have a stable system of Social Security in this country.

The bedrock on which this program is bottomed is the public's confidence that the system is stable and that promised benefits will be paid.

This stability must be over the very long-term because workers must pay F.I.C.A. taxes throughout their working lives, and generally receive no tangible benefits until they retire. Furthermore, payroll taxes are an important consideration for every employer, both in planning current labor costs and in designing adequate pension programs for the future.

Today, the public, particularly our young, does not have strong confidence in the Social Security system. Despite our progress in restoring the financial solvency of the trust funds by passing the Social Security Amendments of 1983, the public still has doubts that the system will work. This is because deep down they doubt that the "politicians and bureaucrats" have the will to let it alone.

They are continually bombarded by public officials, both past and present, who claim that Social Security cannot or will not work, and therefore must be changed.

The public sees clearly the decline in the quality of service resulting from past hiring freezes imposed by the Office of Personnel Management, regardless of SSA's needs. And now, after hearing of an additional cut of 17,000 people, with no justification, they can only expect this situation to get worse.

People know only too well the aggravations caused by equipment and building location decisions made to satisfy the GSA but not the public. What must they be thinking now when they hear of secret plans and lists of offices to be closed all across the country?

They cannot help but become doubters when they see that financial projections are being made by the OMB to satisfy whatever economic policy is popular at the moment, and not primarily to protect those who have paid into the system all their working lives.

In all these cases, they see the Social Security Administration constantly being pressured to achieve unrelated short-term objectives set by officials whose chief responsibility lies elsewhere. They wonder, who is speaking up and fighting for their interests.

In this regard, the present system is failing. Over the last twelve years there have been nine different Commissioners of Social Security and for the past two years there has been only an Acting Commissioner. No matter how dedicated and able these people have been, such a constant and prolonged turnover in leadership has kept this program in constant turmoil.

Because these problems of outside interference and internal weakness have persisted under several different Administrations, and since they show no sign of ending, I believe it is now time for Congress to act. We should respond to the public concern for security by ensuring that the Social Security Administration receives the long-term administrative stability which its unique mission requires.

This does not mean that the Social Security system will become rigid and unchanging. To the contrary, these programs must be kept current if they are to be responsive to the changing needs of our dynamic society. Americans are willing to make ajustments and sacrifices in their efforts to ensure a measure of financial security when they can no longer work. But, in return they must have some certainty that the commitment of a lifetime will not be smashed upon the rock of some momentary political crisis. I believe establishing the Social Security Administration as an independent agency will accomplish this purpose.

I thank the Chairman for his interest in this important proposal. I know from the hearings you have already held this year that you too are concerned about these problems. I commend this legislation to you as a reasonable response, and I thank you for considering my testimony today.

Before I stop, I would like to comment just briefly on another issue, that of the relationship of Social Security trust funds to the unified budget.

In the 1983 Social Security Amendments, we addressed the broad question of the financial solvency of the Social Security trust funds. A part of that compromise was to remove the OASI, DI and HI trust fund operations from the unified budget beginning with fiscal year 1993.

I do not believe we should change that schedule. An earlier removal of the trust funds would not change the financial operations of Social Security. While some may argue that this would serve to insulate Social Security from outside budget pressures, I would note that under the 1983 amendments we have already required the trust funds to be shown as a separate function within the Federal budget for fiscal year 1985 through fiscal year 1992. Furthermore, the best evidence of the financial health of the trust funds continues to be the Annual Trustees' Reports which considers the various trust fund operations independently from the Federal budget.

I know the Chairman has great experience with Federal budget operations and this subject is not the primary focus of my remarks today. But I did want to speak to it, and to observe that these two issues are not inextricably linked and that improvements in the administrative structure of Social Security can be made without changing the manner in which the financial operations of the trust funds are reported.

Again, I thank you for your time.

Chairman JONES. We will hear from Mr. Tauke. Your testimony will be included in its entirety.

STATEMENT OF HON. THOMAS J. TAUKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. TAUKE. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, it is very clear for most Americans today the greatest investment they make is in the Social Security system and, in fact, the decisions that may be relating to Social Security have greater impact on the natural future of most Americans, have greater impact on decisions we make.

It seems that when we look at the Social Security Administration, it is very important that the people have faith in the recommendations made by the Social Security Administration concerning the public. That is why I think it should be an independent agency.

Right now in the Social Security Administration it appears to me as if there is very little long-range planning. We, obviously, have great turnover in the Social Security Administration. There is very little continuity in the Social Security Administration and, consequently, there is considerable concern that the decisions that are made in the administration of Social Security are not made necessarily in the interest of preserving that system for those who receive benefits of it today, and those who are investing in it today so they can receive benefits from it tomorrow.

If, on the other hand, we could have a Social Security Administration system that is independent from the general administration and not subject to all the other pressures that come from the White House or from the Office of Management and Budget, and so on, then I think it is more likely that the public would have confidence. So, I think that the key issue is public confidence in the system; and it is necessary to have an administrative agency that is primarily interested in operating the Social Security Administration in a sound way for those who receive benefits today, and for those who hope to receive benefits tomorrow. We will have less turnover and more continuity, and that has to be to the benefit of all, and for those reasons primarily and those articulated in my statement, I think it would be beneficial to having an independent agency, and I support the Pickle bill.

[The prepared statement follows:]

STATEMENT OF HON. THOMAS J. TAUKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Chairman Jones, Ranking Minority Member Archer, and other distinguished members of the subcommittee, I am honored to appear here today as a cosponsor of H.R. 825, to express my support for the Rostenkowski-Pickle-Archer bill to create an independent Social Security Administration.

During this 50th anniversary of the Social Security Administration, it would be appropriate to restore the confidence and original intent of the program by passing this legislation.

There are three major reasons for establishing the Social Security Administration as an independent Agency. The first is to improve service to the public and restore public confidence in the system. The second is to eliminate the layering and duplication of function caused by SSA's current placement within HHS. Finally, I believe the establishment of an independent Agency would provide some insulation to the program from inappropriate political influence of both the executive and legislative branches of Government.

PROVISIONS OF H.R. 825

H.R. 825 places the Old Age, Survivors, and Disability Insurance Programs plus supplemental security income under a free-standing Social Security Administration, leaving Medicare/Medicaid, Refugee resettlement, AFDC, Energy assistance, and child support enforcement under the Department of Health and Human Services. The independent Agency is governed by a three-member bipartisan board of directors with staggered 6-year terms, appointed by the President. The Board appoints a single Commissioner to a 5-year term. A public ombudsman represents citizen concerns within the Agency. An inspector general assesses Agency performance.

The Chairman of the Board is also appointed by the President. Responsibilities of the Board include governing the Administration through regulation and appointing a Commissioner as the chief operating officer. The Board also will act as trustees for the Social Security trust funds along with the Secretaries of the Treasury and HHS and the two public members required by the 1983 amendments. The Board will make annual budgetary recommendations and defend such recommendations before the Congress.

The Commissioner is appointed by the Board to a 5-year term. Responsibilities of the Commissioner include acting as the chief operating officer in administering Social Security programs consistent with law and regulations. Other responsibilities include establishing and maintaining an efficient and effective operational structure and devising and implementing long-term plans to improve the programs under the Agency. The Commissioner also will make annual budgetary recommendations for administrative expenses and defend these recommendations before the Board and the Congress.

Since power to appoint and remove the Chairman of the Board of Directors rests with the President, he does retain some Executive power over the program. Budgetary responsibility is in the hands of the independent agency—insolvency or solvency can no longer be attributed to the Congress or the President.

The Social Security Administration is unique because it affects more Americans now and in the future to a greater degree than any other Federal program. The unique universal and long-range nature of the program demands a unique solution to the problems facing the system. H.R. 825 is a unique solution indeed.

This legislation implements last year's recommendations of the Congressional Panel on Social Security Organization. The 1983 Social Security Amendments mandated a study to implement the removal of the Social Security Administration from the Department of HHS. Thus, Congress is already on record as supportive of an independent Agency and the blueprint has been completed to implement this change.

PUBLIC SERVICE AND CONFIDENCE

Public confidence in the Social Security Program was challenged in 1973, when the Agency was given the immense task of implementing the SSI Program. The Agency was given a short time frame and only one-half of the staff used by the States to administer the Disability Program.

Public confidence was challenged in the late 1970's when financing projections prompted Congress to enact the 1977 amendments to allegedly correct the trust fund situation.

Public confidence was again challenged prior to the national commission and the 1983 amendments by reports of impending bankruptcy of the trust funds.

Public confidence in the system was challenged during the implementation of the continuing disability review process when thousands of truly disabled persons were removed from the disability rolls.

Public confidence was challenged recently when the administration's proposals to review field offices for closings and to reduce personnel were criticized by Congress and the public.

In my opinion, these challenges are not the fault of the employees of the Social Security Administration. Turnover in the Commissioner's position, policy decisions of the Administration, lack of long range planning and continuity are factors explaining these challenges to the program. The present Commissioner and other managers at SSA have done their best to improve public confidence in the program, despite budgetary and policy directives imposed upon the Social Security Administration. While the problems have often been beyond the control of the Agency, an independent Agency would be in a better position to serve the public and restore public confidence in the program.

PLACEMENT WITHIN HHS

The nature of retirement security programs demands stability, as well as long-range planning and decisionmaking. Field operations such as the automated claims process and the structure and number of field offices could be more appropriately managed if SSA had the freedom to develop a long-range plan for service delivery.

According to the Congressional Panel on Social Security Organization, OMB budget reviews and executive branch oversight are often a source of conflict for individual agencies. This conflict applies to budget policies, management systems and controls utilized by an Agency. OMB is often more responsible to short-term budget goals than to long-term management planning that an agency such as Social Security needs to adequately serve the public.

The Congressional Panel on Social Security organization also contends that action is needed to solve SSA's management and operational problems. There is greater probability of less interference in the management of the Agency if it is ouside of HHS. SSA should also be free from constraints from OMB, OPM, HHS, and GSA. This would ease difficulties in hiring, procurement and space management so that SSA could focus on operational and administrative problems. The public would be better served if resource allocation was independently based upon the program and its trust fund operations, rather than solely upon budgetary goals.

The quality of services at SSA will depend on the freedom and flexibility given to the commissioners and top career executives within SSA. They must be given the flexibility to respond to the new policies established in the 1983 amendments. They must be given the flexibility to respond to the technological advances of the computer and systems modernization plan. They must also be given the flexibility to change the negative public perceptions of the program that have developed over the years.

The service-intensive nature of the workforce of SSA requires that the Agency manage its own resources. SSA, rather than the Department, should take the lead in recruitment and hiring of claims representatives. Service to the public and SSA management could also be substantially improved if the principle positions in SSA were part of the Senior Executive Service (SES), and those positions were filled with the most capable people. Currently SSA's needs for SES positions may be subordinate to the allocation ceilings of HHS. The SES Program would be strengthened under an independent Social Security Agency.

POLITICAL INFLUENCE

Public confidence in Social Security is also related to the level of political interference in past years. Problems associated with the disability review process, budget reductions and office closings have eroded confidence in the program. Controversy over proposals to reduce Social Security benefits resulted in the 1983 provision in the Social Security Amendments to remove Social Security from the formal budget making process in 1993. Some have suggested that removal of Social Security from the formal budget process will complement the establishment of an independent agency. It is argued that implementation of the 1983 law will prevent Congress from altering the Social Security Program to attain budgetary goals, such as reducing the deficit.

However, it must be recognized that any excess revenue collected for Social Security will continue to affect how much change is required in the taxing, spending, and borrowing policies of the Government. Even after 1993, trust fund activity will still be reflected as Federal revenues and outgo. Therefore, Social Security cannot be removed from the process of Government finance. Moreover, it is unrealistic to think that a program that constitutes such a large part of Federal outlays will ever be immune from budgetary scrutiny. The Social Security Administration will continue to be subject to congressional controls and prerogatives. Establishment of an independent Agency and the scheduled removal of Social Security from the unified budget will help to exempt Social Security from the political decisions to raise taxes or reduce benefits that accompany the budget process. While Social Security will never be completely removed from the arena of Federal finance, public confidence in the program may be restored by insulating the program administrative and allowing management reform to occur.

Chairman JONES. Mr. Young.

STATEMENT OF HON. BILL YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. YOUNG. Mr. Chairman, I am here to speak on the question of separating Social Security from the unified budget, and specifically in support of H.R. 1385.

This concept was approved in 1983, but made effective in 1993. My legislation would accelerate that separation of Social Security from the unified budget in fiscal year 1986. To attempt to use Social Security funds to make it appear that we are doing a better job in reducing our expenditures is phony. You cannot use the money in the Social Security trust fund to balance the budget.

I have the privilege of serving on the Appropriations Subcommittee that has jurisdiction for funding the Social Security Administration, and the Administrator was there recently, and I asked her if we have a surplus in the Social Security trust fund, as we do today, would it be possible for us to use some of those dollars to buy more submarines and ships that Mr. Dorgan spoke about, and she said, no, you could not.

I said, well, could you use some of the Social Security trust fund money for building roads, bridges, and highways? The answer was no.

I asked her if under the law we could use some of those moneys to build schools, the answer was no. I asked, could you use some of that money to pay the interest in the national debt, which is one of the biggest burdens on the nation's taxpayers in 1985 and 1986, and for years to come? The answer is no, you cannot use the Social Security trust fund moneys for any purpose other than that for which they were intended to be used for.

So I say, let us separate Social Security from the unified budget; but let us do it now. Let us not try to fool anybody any longer.

I also want to speak, Mr. Chairman, on the question of Social Security cost-of-living increases for this coming year. There has been a lot of conversation about this subject in the other body. My suggestion is that we keep our commitment to the people on Social Security. We told them we were going to give them a cost-of-living increase based on the Consumer Price Index, and that is what I think we should do. It is not going to threaten to the Social Security trust fund.

The Social Security Administration actuaries project the system will maintain a $37 billion surplus through the end this fiscal year. After paying the full cost-of-living adjustment, which I am suggesting and recommending strongly that we do, at a cost of $5.8 billion, the actuaries estimate that the Social Security trust fund will still increase to $45 billion by the end of fiscal year 1986. I say we ought to go ahead and give those people the cost-of-living increases that we told them they were going to get; because we cannot use the money for any other purpose. It is a phony issue to try to convince somebody that that money can be used to balance the budget and reduce the deficit, because you cannot and I think we should keep our word to those 36 million people who get their checks from the system that we created; and we made them a part of.

Thank you, Mr. Chairman, and members of the subcommittee, for a chance to be here.

[The prepared statement follows:]

STATEMENT OF HON. BILL YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, I want to thank you and the members of your Committee for allowing me to testify this morning in support of H.R. 1385, legislation I introduced to accelerate the removal of the social security trust funds from the unified federal budget.

As you know, the National Commission on Social Security Reforms and the Ways and Means Committee supported this proposal in 1983. The Social Security Amendments of 1983 included a provision to remove the social security trust funds from the unified federal budget, but not until 1993. My legislation, Mr. Chairman, would make this accounting change effective in fiscal year 1986.

The social security system was established 50 years ago as an autonomous, self-supported program with independent trust funds financed by employee and employer contributions. Congress has been careful throughout the years to keep the social security system independent from general Treasury accounts to insulate the program from political and budgetary pressures. Unfortunately, social security recipients in recent years have all too often been held hostage by Congress.

Once again this year, it has been suggested that social security cost-of-living adjustments should be eliminated or reduced to lower the federal deficit. This is an attempt not to effect changes for the long-term betterment of the social security system, but to meet short-term budgetary goals.

Throughout the program's history, the system has maintained, for the most part, a trust fund surplus. To capitalize on this situation, President Johnson began in 1969 to incorporate the social security trust funds into the unified Federal budget so that the surpluses would offset the mounting federal deficits. This practice will continue as long as the Federal government is allowed to maintain this accounting system.

Changes to the social security system should only be considered by Congress to ensure the program's financial stability. That is clearly not the case this year because cost-of-living reductions are being proposed even though the Social Security Administration's actuaries project the system will maintain a $37 billion surplus through the end of this fiscal year.

If full cost-of-living adjustments are paid to beneficiaries as scheduled January 1, 1986, at a cost of $5.8 billion, the actuaries estimate the social security trust funds still will increase to $45 billion by the end of fiscal year 1986. Acting Social Security

Commissioner Martha McSteen reaffirmed this fact in response to my questions during an appropriations subcommittee hearing last month.

Mrs. McSteen also clearly stated, and I quote, "that due to the dedicated contributions financing the payout . . . that whatever (the social security trust funds') expenditures are, and whatever the income is, does not affect the unified federal budget." To clarify this point, I asked her if the social security surplus could be used to fund national defense programs, build roads and bridges, provide for education or farm programs, or finance the interest on the national debt. In each case her answer was no.

It's wrong to suggest otherwise because the surplus cannot be used to reduce the budget deficit. For this reason, I have steadfastly opposed any attempts to eliminate or reduce the scheduled January 1, social security cost-of-living increase.

The budgetary choices Congress must face throughout this decade will only become more difficult, and as they do, the mounting social security surpluses will become more and more tempting. We cannot allow social security benefits to be chipped away year after year to provide false federal budgetary savings.

As the representative of more than 240,000 social security recipients in Pinellas County, Florida, it is my hope, Mr. Chairman, that your committee will affirm its support for full scheduled cost-of-living increases this year and that you will favorably consider my legislation to accelerate the separation of the social security trust funds from the general Treasury fund. Prompt action by Congress on this issue will return a sense of autonomy to the social security program and will reassure our nation's 36 million social security recipients that their benefits will no longer be in jeopardy year after year.

Chairman JONES. Thank you very much.

Let me ask a question of Mr. Tauke.

The Social Security Administration is the equivalent of the Justice Department, IRS, and Treasury Department, and yet there has been so much instability and lack of continuity and leadership at Social Security. Why do you think that is a problem at SSA and not, say, in IRS?

Mr. TAUKE. I do not know why there has been a lack of continuity at the Social Security Administration. I believe, however, that it is quite clear that we have had a big turnover in the leadership of the Social Security Administration over the last 10 or 12 years, and as a result, there is a need to look at the advisibility of moving it away from HHS, which I think is probably a contributing factor to some of that instability.

Chairman JONES. Do you have any concerns? I mentioned the example of the Postal Corporation a little while ago. Do you have concerns about making Social Security an independent agency and still being able to solve the problems of your constituents——

Mr. TAUKE. I think it is a legitimate concern. All of us who have dealt with the postal system since the reorganization are aware of some of the problems in getting a response to congressional requests. However, I do note in the structure that is contained in the Pickle bill that there is established a public ombudsman who would be available to handle not only our expressions of concern and our requests for assistance and those of the general public, and there would still be congressional oversight to admit congressional pressure be exerted whenever that was necessary in order to handle some of our complaints.

Mr. ARCHER. Thank you, Mr. Chairman.

I apologize for not being here at the inception of this hearing, and I just wanted to make a very, very short statement which will tie into the testimony of the gentleman who was here before us.

As one of the original cosponsors with Mr. Pickle of H.R. 825, I want to thank you, Mr. Chairman, for holding this hearing. I think it is an excellent opportunity for committee members, especially new members, to become more fully acquainted with the merits of the Social Security Administration operating as an independent agency.

I am pleased with the number of additional cosponsors. I thank you gentlemen for your support of this bill, and I am pleased it has been on a bipartisan basis. My continued support for H.R. 825 rests on its independence from the partisan political arena. In fact, my initial support, stemmed in large part from my hopes that independence will distance the Social Security system from political whims. If others attempt to use this bill to prevent reviewing the field offices and services they provide, I would have to consider, reluctantly, withdrawing my support.

One of the strengths of this bill, in my view, is that it delegates to SSA the authority to determine personnel needs and to recruit needed personnel, to acquire space, and in short, manage and budget its own resources. For example, SSA would be responsible for monitoring the implementation of systems modernization—that is the on-line processing of initial applications—which is so critical to the proposed adjustments. That does not mean that the subcommittee would forfeit its oversight responsibilities; but it does mean that SSA would be accountable to this committee.

The second point of this hearing is the unified budget. As a member of the National Commission on Social Security Reform, I agree with the recommendation that the trust funds should be removed from the unified budget, so that changes in the Social Security system would be made for progammatic reasons. On the other hand, a relationship between the budget and Social Security is not one that can be readily divorced. As long as trust fund surpluses are invested in government securities, and as long as general revenues contribute, however indirectly, to the trust fund, a relationship exists. Let me clarify the latter.

General revenues contribute to the trust fund in a variety of ways: for example, interest on the trust fund investments, and gratuitious military wage credits in the government's role as employer; $70 billion of the revenues raised by Public Law 98-21 that was passed in the Congress in 1983 to solve the shortfall or potential shortfall of the fund represented general revenues and a big chunk of this came from a direct transfer out of the Defense Department's budget.

In addition, we enacted in 1983 the taxation of Social Security benefits which involves the general Treasury funds, so we are seeing a bigger and bigger relationship, much to my disagreement, because I do not believe in putting general fund into Social Security. Within the confines of the unified budget, these transfers are not shown as outlays, but they would be shown that way in a deunified budget.

In brief, Mr. Chairman, I want to thank you for having the hearings and I want to thank you, Mr. Tauke, for your testimony, with which I am in general agreement; but I thought those extra points should be made.

Chairman JONES. Mr. Daub.

Mr. DAUB. Thank you, Mr. Chairman.

First, to my colleague from Florida, Bill Young, we appreciate your testimony on the question of separation.

Why do you think we should do it now instead of later? Is there a perception problem?

Mr. **Young**. One, we are kidding ourselves if we think we are going to reduce our deficit through the use of the trust fund. I represent a county that has 240,000 people on Social Security. Almost without question, once a month, or more often, someone somewhere makes the comment that the Social Security Program is going bankrupt or that Social Security cost-of-living increases are going to have to be delayed or frozen. This does not mean much to us, because we are in a better financial position than most Social Security recipients as long as we serve in Congress. But imagine the elderly ladies and gentlemen who have retired, left their homes in the Northeast, or the Midwest and come to Florida. Their families are back home and they are down there by themselves, and at the end of the month they have no money. That is hard for us to understand; but there are many, many people in our country who survive only on their Social Security check. They know when they get to the end of the month they will have zero dollars. Every time some politician makes a suggestion or comment or an off-the-cuff statement that Social Security is going broke, that the checks are not going to go out; that we are going to stop the cost-of-living increases, those people panic. It is not fair, Mr. Daub, to make those people panic and, therefore, let us accelerate the removal of the Social Security trust funds from the unified budget.

Mr. **Daub**. Now, Mr. Tauke, the third reason for your support for the Social Security Administration as an independent agency is that it will provide some insulation to the program from inappropriate political influence from both the executive and legislative branches. Would you care to elaborate?

Mr. **Tauke**. I believe at the current time there is considerable speculation about some of the decisions that are made by the Social Security Administration, and whether or not they are made to further improve the program or made for other purposes—Mr. Archer raised, for example, the issue of closing some of the offices of the Social Security Administration.

I think that undoubtedly there is a necessity to do that but it should be done in order to enhance the operation of the Social Security Administration, not to achieve some other goal that is separate from it. That is why I think that there is a need for an independent agency, not to ensure that we are going to make no changes in Social Security, not to ensure that we are guaranteeing all the benefits, but because of the future. People should be confident of the fact that the changes that we are making are being made in order to ensure the future stability of the Social Security system, not in order to achieve some other political end.

Mr. **Daub**. I know of the gentleman's expertise in the area on the subcommittee and have served with the gentleman for 4 years. I appreciate very much your contribution to the hearings today.

Mr. **Donnelly** [presiding]. Our next witness is Stanford G. Ross, former Commissioner of the Social Security Administration.

Would you please come forward?

Mr. Ross, your entire statement will be included in the committee record, and the committee would hope that you could summarize it, so we can get to the question and answer section.

STATEMENT OF STANFORD G. ROSS, ESQ., PARTNER, ARNOLD & PORTER, FORMER COMMISSIONER OF SOCIAL SECURITY

Mr. Ross. Thank you, Mr. Chairman.

It is a great pleasure to be here today, because you have set up two very, very important issues to be addressed. The basic conclusions I reach on the basis of my experience are that SSA should be made independent within the structure of a department of income security, but that it should not become a separate agency, and that the Social Security trust funds should remain a part of the unified Federal budget, but steps should be taken to assure that changes in Social Security are made only for programmatic reasons, and not for budgetary reasons.

The reason I come out with these two conclusions is that I think that Social Security is really part of a much larger problem. The much larger problem is the huge emphasis in our budget on Income Security Programs.

If you look at the total Federal budget, about half of it deals with this area, and yet there is no policy focus for the Congress to deal with it.

Second, a recent study shows that almost 50 percent of our citizens receive some direct grant or in-kind benefit from the Government which, again, emphasizes the seriousness of the problem. If you add to that the indirect benefits subsidized through the tax system, like private pensions, IRA's and other Income Security Programs done through the revenue side of the budget, almost every citizen has an interest in this area.

Now, the model which I would advocate is much like the Internal Revenue Service within the Treasury Department. I was interested that people focused on the instability of the tenure of Commissioners of Social Security, and think that the solution is to put it in a separate agency.

I do not agree with that. I think the reason you have stability in the tenure of Commissioners of Internal Revenue is because they are made administrative officers and managers, and they are taken out of politics. You are not going to take the Commissioner of Social Security out of politics by making him or her the head of an independent, separate agency. You will take him or her out of politics the way the Commissioner of Internal Revenue has been taken out of politics, by making him or her responsible for management and administration and delivery of services to the public only.

Think about the Treasury Department. It is the Secretary of the Treasury, with an independent tax policy staff under an Assistant Secretary, that does policy and does politics. Therefore, the Commissioner of Internal Revenue can concentrate on service to the public. I think that same pattern could work with the Social Security Program.

The Secretary of HHS, or Income Security, as I would redesignate him or her, could come up here and deal with all the political and policy problems, while the Commissioner of Social Security could work on these very important administrative problems.

There is a model which I submit to you is proven. It works, and it could be applied in this area.

On your second issue of the budget there can be no question that Social Security is so big on the expenditure side that you have got to take it into account in making economic policy. A lot of the proposals neglect its importance on the tax side also, however, as a former tax policy official, too, I would tell you that failing to recognize the importance of the payroll tax, and the dedicated income taxes that come in to support Social Security is wrong. Keeping those taxes in the budget is very important, and I really think it would be extremely artificial to take Social Security taxes out of the unified budget.

It would be much more important to simply assure the public that when you make changes you are doing it for programmatic reasons, not budgetary reasons, and one way you could do that is if this committee, the Ways and Means Committee, and the Senate Finance Committee would certify every time there is a substantive change in Social Security that you are doing it for programmatic reasons, not budgetary reasons.

I could go on, but I think that I will stop and answer any questions that you might have.

[The prepared statement follows:]

STATEMENT OF STANFORD G. ROSS, PARTNER, ARNOLD & PORTER

I am pleased to have the opportunity to participate in your deliberations on the issues of whether (1) SSA should be an independent agency and (2) the Social Security trust funds should be removed from the unified budget. These are important issues of public policy which, while they might seem to the uninitiated to be bloodless issues of government organization, in reality focus attention on some fundamental aspects of our country's major social program.

Before addressing these specific issues, I want to commend the Subcommittee, and the whole Ways and Means Committee, for the important agenda of work it is undertaking overall on the issues relating to a national retirement income policy. It is particularly important to delve into the relationship of the public and private sector programs that deal with retirement income and related matters. Explicit policies should govern the relationship between direct expenditure programs such as Social Security and tax expenditure programs such as those which form the basis of the private pension system. By pursuing these important issues, you are focusing public attention on some of the most critical policy decisions facing our nation today.

I am making this statement in my individual capacity to present my personal views as to the public interest. I am currently a partner in the law firm of Arnold & Porter, Washington, D.C. I served as Commissioner of Social Security during 1978 to 1979 and was the first Chairman, before my appointment as Commissioner, of the 1979 Advisory Council on Social Security. I have also served in the government as a White House Staff Assistant (1967-68) and as an Assistant Tax Legislative Counsel of the Treasury Department (1961-63). I am also a former Chairman of the Committee on Social Security and Payroll Tax Problems of the Section on Taxation of the American Bar Association and have lectured and written extensively on income security matters, particularly Social Security, private pensions and tax policy.

As I will set out in further detail below, my basic viewpoint is that the nation requires a more explicit national income security policy. I believe that a comprehensive view of all public and private sector programs that relate to the economic security of individuals must be taken if we are to achieve equitable and efficient policies in the years ahead. Based on this basic viewpoint, the conclusions I reach on the specific issues that you are addressing today are that (1) SSA should be made independent within the structure of a Department of Income Security, but that it should not become a separate agency; (2) the Social Security trust funds should remain part of the unified Federal budget, but steps should be taken to assure that changes in Social Security are made only for programmatic reasons.

One of the most serious domestic problems in the United States is the failure to address income security policy issues in a comprehensive way. There does not exist a government-wide focus on income security programs and, as a result, we have piecemeal attempts to reform individual programs such as Social Security, Medicare, Aid to Families With Dependent Children, Civil Service pensions, military pensions, private pensions, IRAs and so forth. Often these piecemeal changes create more problems than they resolve. We do not appear to be making progress in our reform efforts in any area.

I think there is no higher priority on the domestic side of government than finding a place for a comprehensive retirement income policy focus that looks at all programs together and attempts to bring rationality to this entire area. We must eliminate the waste, inefficiency and unfairness of having multiple programs that randomly differentiate between beneficiaries. Giving different benefits to different groups of our citizens without any rational basis for doing so cannot go on forever. Confidence in government will continue to erode if all our citizens are not treated fairly.

Let there be no mistake about the huge dimensions of this problem. Approximately one-half of the Federal budget deals with income security programs. At a time when we are facing unprecedented budget deficits, and the President and the Congress are giving primary attention to reduction of these deficits, the importance of income security policy should not go unnoticed. Yet because of the separate way in which these programs have developed historically, the fragmented way in which they are included in the budget, and the factured way in which the executive and legislative branches are organized to deal with them, there is little capacity in our government today to come to grips with the fundamental problems that are present. To put it bluntly, we seem to have little capacity to make changes that achieve economy, efficiency and equity in these programs.

Let there also be no mistake about the seriousness of our failure to address these issues. Looking at the problem from the standpoint of our individual citizens, recent studies show that almost 50 percent of our citizens receive some direct benefit from the Federal government in the form of a cash payment like Social Security or some in-kind service like food stamps. If one adds to this 50 percent the number of people who receive indirect Federal benefits through private pensions, IRAs or some other private sector program which is subsidized by the tax system, all but a very few of our citizens are affected by government policies. In this sense, the need for fairness and efficiency of the programs, which is the primary responsibility of the Federal government, should be thoroughly considered and remedial action taken as promptly as possible. Ultimately the confidence of our citizens in the government will fail if the government does not better discharge its responsibilities.

The Executive Branch proposals for comprehensive income tax reform, and the increasing Congressional support for a more just, efficient and simpler tax system also underscore the need for a comprehensive view of the income security area. One cannot make appropriate changes in the tax treatment of particular areas such as private pensions, health care or institutionalized savings, without having an explicit policy on what the income security goals of the country are and how they can best be achieved. We must begin to see how our direct expenditures and tax expenditures relate to one another on these subjects and to do a better job of maximizing the effects for each individual citizen of the revenues which the government is directly or indirectly expending.

Because of my concern for a better policy focus on all income security issues, I think the major priority in considering specific changes such as you are inquiring into today must be political accountability and an improvement of the political response to the substantive policy issues presented by the Social Security program. I do not think that we will increase political accountability and improve the political process that must resolve issues in the years ahead by making SSA a separate agency. Rather, I would achieve the independent status for the Social Security Administration which I think is widely sought, and which I agree would be desirable, by reconstituting the Social Security Administration as an independent operating agency within the Department of Health and Human Services. At the same time, I would redesignate this Department into a Department of Income Security so that it provides a proper focus on the key public policy issues on the domestic side of government.

The model I advocate is very much like that of the Internal Revenue Service which operates relatively independently with the Department of the Treasury. The Commissioner of Internal Revenue concentrates on the administration of the tax laws and management of an agency of comparable size and complexity to the Social Security Administration. Tax policy matters are handled by the Secretary of the Treasury with the assistance of a tax policy staff under an Assistant Secretary of the Treasury. The Commissioner of Internal Revenue largely contributes to policy formulation based on administrative considerations and concerns for quality of service to the public. The integrity of the administration of the tax laws is better maintained by the Commissioner's lack of a major policy and political role. I think this model could work well for a new Department of Income Security with a Social Security Commissioner who is essentially a manager and administrator and not a policy and political person. There should be improvement in continuity of leadership of the organization which result in improvements in delivery of service to the public.

There are inevitably tensions between the proper administration of a program and dealing with the policy aspects of the program in a political arena. If the person dealing with the administrative aspects is not insulated from the political and policy aspects, the attention that should be given to the administrative aspects is lessened. Administrative problems such as improving computer systems and facilities, tend to have long-term time horizons and require great continuity of leadership. Political and policy programs tend to be short-term and heated to take high current priority at the expense of longer-term considerations. The Treasury-Internal Revenue Service model permits Commissioners of Internal Revenue to work on longer term administrative problems while Treasury officials deal with the immediate political and policy problems.

Under the model I am proposing, the longer-term problems of the Social Security Administration relating to modernization of computer systems, improvement of facilities, better training of personnel, and upgrading of service to the public, could be dealt with consistently with the long-term horizons that are appropriate for dealing with such problems. The immediate political and policy problems of the program could be dealt with by the Secretary of Income Security and his staff and the Social Security Administration would be insulated and protected from the distractions that dealing with those problems inevitably breeds.

I think the concept of a separate agency headed by a board of three persons is unsound from a public management standpoint. Separate agencies are often weak institutions lacking the political attention and support that is required for success in their mission. Boards generally do not allow the focusing of responsibility that is needed for either proper administration or enlightened policymaking. Moreover, even if there were a single head of a separate agency, the fact that such a person would not have Cabinet status would mean that access to the President would be largely dependent on the particular relationships between the person heading the agency and the President at the particular point in time. There is more certainty that prompt and responsible political action will be taken to protect the integrity of the Social Security program if a Cabinet officer with direct access to the President has responsibility for the policy aspects of the program.

My proposal, I believe, is also better from the standpoint of the Congress discharging its responsibilities for the Social Security program. While the Congress surely will not lose sight of the Social Security program no matter where it is housed, the Congress can relate better to a sensitive program where the President is clearly responsible within the Executive Branch. A separate agency, whether under a Board or a single administrator, would weaken the capacity of the Congress to reach mutually agreed decisions with the President as to future issues that need to be resolved.

Not only is Social Security the single largest program on the expenditure side of the budget, which in an era of continuing deficits means that it will have to be watched scrupulously by the Congress, but increasingly payroll taxes are among the largest revenue raising source on the income side of the budget. The tax policy implications of ever increasing payroll taxes, and the treatment of income security programs under the income tax laws, generally require that the Congress be able to come to grips with Social Security in the context of issues of tax policy that go beyond what a separate head of a Social Security agency could deal with. Congress must have a President who has the Secretary of Treasury and a variety of other Cabinet-level officers advising him in order to deal in a realistic and responsible way with the tax side of the Social Security program. Both the Congressional Panel on Social Security Organization and the bills that have been introduced to date on this subject have, in my judgment, neglected the importance of the tax policy dimensions of this subject.

My views on the second specific issue of budgeting for Social Security stem from similar considerations. Whether the Social Security trust funds are in or out of the unified budget might be viewed as largely a paper transaction, and not of great moment. But from the standpoint of political responsibility, there can be no doubt that Social Security must be taken into account as economic and budget policies are made and that payroll taxes and income tax aspects of Social Security must be taken into account as fiscal and tax policy are made. The issue then is what budgetary formulation for the Social Security trust funds and the dedicated payroll and income taxes that support benefit payments will most insure appropriate political action on these issues.

Relatedly, we must be concerned with what budgetary formulation will promote the greatest understanding on the part of the general public who cannot be expected to be experts in these complex policy matters. I believe that taking Social Security out of the unified budget would convey to the public that these are somehow items which are not related to the general economic condition of the country. The signal would be that Social Security is above or immune to issues of budgetary and tax policy and the program has no relationship to current concerns for deficit reduction and comprehensive tax reform. Nothing, of course, could be further from the truth, which means that this action would be misleading to the public. Social Security is our fundamental income security program and its health in the years ahead will inevitably depend upon and reflect the health of our economy and tax system. Thus, Social Security and dedicated payroll and income taxes should continue to be a part of the unified Federal budget.

Historically, since Social Security was added to the unified budget in 1969, it has added to the size of the deficit in twelve out of the past fifteen years. Looking forward, however, after the next several years, payroll tax revenues are expected to outstrip benefit payments so that there will be a surplus to be contributed to the budget for a good number of years. I think it would be wrong to make a decision as to whether to include or exclude the Social Security trust funds from the unified budget based on calculations as to whether such action will reduce or increase the deficit.

Whether in fact the trust funds will reduce deficits in the years ahead depends upon whether Congress will in fact allow payroll taxes at a level which build large surpluses. It is entirely possible that Congress either will use these surpluses for support of the Medicare program, which is sooner or later going to have deficits which require coverage by additional revenues, or perhaps will even lower payroll taxes. All that speculation should be beside the point. The unified budget is a basic tool of public management and given the importance of Social Security benefit payments and payroll tax revenues to the expenditure and income sides of the budget, the Social Security trust funds should remain a part of that basic budget process. Political accountability and a better discharge of political responsibilities on a variety of economic policy issues will be better discharged by this approach.

I am sympathetic to the concern that changes in the Social Security program not be proposed or made solely for budgetary reasons. This has happened in the past and is not sound. There is clearly no justification for changing our major social program simply because of the pressures of a particular budget year. On the other hand, Social Security cannot be insulated from considered policy review and the program must be adapted as economic and societal circumstances change. I think we can insure that Social Security changes only be made for valid programmatic reasons without taking Social Security out of the unified budget and believe we would do better to focus on that issue not the budget issue.

One idea that might insure that Social Security changes are proposed and made only when there is programmatic justification is for the Congress to require that the Ways and Means Committee in the House and the Finance Committee in the Senate certify that any changes in Social Security are being made for programmatic reasons. Naturally, these changes will have budgetary implications and those aspects of any change must be considered and taken into account. But if a practice is begun of the relevant substantive committees assuring the public of the social reasons for the changes, a lot of the controversy that has resulted in the past from proposals that seem to be being made solely for budgetary reasons can be avoided. There may also be other ideas that could be developed to insure that Social Security changes are proposed and enacted only for valid programmatic reasons. This, to me, is a much more important subject to pursue than to call for the removal of the Social Security trust funds from the unified budget. The latter is a blind alley; the former is a road to progress in keeping the Social Security program adapted to current conditions and to achieving progressive improvement as circumstances change.

I would point out that the 1983 amendment to the Social Security Act which would remove the Social Security operations from the unified budget beginning with fiscal year 1992 was somewhat ambiguous and should be clarified by legislative action in all events. It is not clear whether the amendment relates purely to a formalistic matter of presentation in the unified budget or whether it was meant to substantively provide that Social Security changes could never be made as part of a budgetary process. If the latter were to be the interpretation, the government would have a serious problem since increasingly the Federal budget process is the major legislative process by which the federal government functions and any programmatic changes that are required for Social Security that affect expenditures or revenues may inevitably have to be filtered through the budget reconciliation process.

There can be little question that the federal budget process is a basic tool of public management in today's world. The Executive Branch in presenting a budget must establish its priorities and the President must come to a position as to his program and how he intends to discharge his responsibilities. On the Congressional side, the budget process also helps the Congress, which now and for the foreseeable future will have a diversity of views, to come to some mutual understanding of what the priorities are and what action will be taken with respect to particular programs. There is no way to insulate Social Security from the budget process now that such process has become an essential part of public policy formulation.

My feeling about those who advocate removal of the Social Security trust funds from the unified budget is that they are very much like the overly protective parents who, because of their love and affection for a young child, would place it in a sterilized room so that it would not be subjected to the rigors of the general environment. While I suppose with the scientific advances that have taken place, one could ensure a clean and pure atmosphere and a healthful climate in the sterilized room, one would deprive the child of relationship with the outside world and in time the child would not only not prosper, but would probably so suffer because of the isolation that it would inevitably have to be removed from the sterilized room and reintegrated with the real world.

I think Social Security must and inevitably will have to change and adapt and be part of the rough and tumble of the political process, including the bueget process. I think that it is an important and solidly conceived program so that it will not be disadvantaged by being kept in the unified budget with other social programs. I would go further and say that many of the problems in dealing with Social Security in the past are that it has tended to be treated as a "sacred cow" and that we will all do better in the future if we look at it objectively. Sooner or later, we must rid ourselves of some of the mythology that has surrounded this program. Objectivity and reasonableness when dealing with important social and political problems can only be in the best interests of the country.

Let me be clear that I am not happy with the public policy process affecting Social Security today. I think, for example, that the proposal in the Senate, which has been embraced by the Reagan Administration, for the Social Security cost of living adjustment (COLA) to be cut for the next three years is an example of very poor public policymaking. Assuming that Social Security like all other programs should make some contribution to the reduction of the deficit, which I emphasize I am not advocating but simply assuming, a better way to achieve this result would be to subject Social Security benefits to the Federal income tax without the high threshold which now prevails. The revenues which are gained from subjecting Social Security benefits to the federal income tax would be greater than the moneys which are saved on the expenditure side by reducing the COLA. Moreover, there would be far greater equity in the tax alternative since the Federal income tax would only take the benefits from those who have sufficient sources of income that the tax system fairly imposes the income tax.

Reducing the COLA tends to deprive beneficiaries of needed support whether or not they can afford to make this contribution to the deficit reduction. Recent studies tell us that perhaps some 650,000 beneficiaries would be reduced below the poverty line, which is an unconscionable result and entirely inconsistent with valid programmatic considerations. Allowing the federal income tax to operate to the full extent on Social Security income would insure far greater equity in terms of the people affected by the change. Moreover, the public could be assured the changes were being made for valid reasons, not merely for budgetary purposes.

For those who would say that the flaw in this alternative is that the Reagan Administration is committed to cutting expenditures and will not consider tax increases, I would point out that the Federal income taxes raised by the change are recycled into the trust funds to make future benefit payments. Thus, this proposal could be viewed as consistent with the Administration's views on the need for expenditure reductions rather than tax increases since it ultimately affects the expenditures side of Social Security. Surely an Administration which in the past has had the flexibility to view the closing of tax loopholes as revenue enhancers and not tax increases could view the Social Security benefits that are recaptured by the Federal income tax system for the trust funds as indirect expenditure reductions rather than tax increases. For myself, while recognizing its political importance, I find all of this rhetorical posturing to be fairly artificial from a programmatic standpoint. What I consider essential is that any changes in Social Security that are made be both equitable and efficient and not driven solely by budget considerations rather than programmatic justification. The alternative I offer to tax Social Security benefits meets these criteria, the proposed COLA cut does not.

In closing, let me commend the Subcommittee and the full Ways and Means Committee for your dedication to spending considerable time and attention in this Congress on important public and private sector aspects of income security programs. You are now, with this new initiative, focusing on the single most important issue on the domestic side of government. I know that the country will be greatly benefited by your endeavors. If there is any way that I can contribute further to your deliberations, I will be pleased and honored to do so and hope you will call upon me. I thank you for inviting me here today.

Mr. DONNELLY. Mr. Archer.

Mr. ARCHER. Mr. Ross, thank you for coming and testifying with us today.

I certainly have enjoyed the years of our interrelationship when you were Commissioner.

When you say bugetary reasons, I assume you mean the overall Federal budget, not the budget of the Social Security Fund itself?

Mr. ROSS. That is correct.

Mr. ARCHER. Because, obviously, we have got to be concerned about that.

You have kept your position consistently in basic opposition to this independent agency, but if the Congress did pass legislation for an independent agency, I wonder which leadership structure you would prefer.

In the original draft bill presented by the Congressional Panel on Social Security Organizations, responsibility and authority were given to a strong chief executive officer with a nine-member part-time advisory board. H.R. 825, however, provides for a three-member Social Security Board, which would govern the agency, and a chief operating officer, whose authority would be limited to administering the program.

Between those two approaches, which one would you prefer, or does that become for you more a case of do I want to die by the poison pill, or by slitting my throat?

Mr. ROSS. No, I have a clear view of that. If you were to do it, I think the study panel's recommendation of an advisory board with a single administrator is a much sounder approach.

The problem with a three-member board is that the agency will be a headless horseman. The chairman of the three will be somebody who may or may not be able to get done what needs to be done for the agency. It will be very difficult to keep the board from meddling in the administration of the agency.

I think you would be much better off with a single head. The problem that I have with it, though, is that that single head will probably turn over just as much as your Commissioners, because he or she is going to be right in the middle of politics and policy.

Independence with this program is an illusion. It is simply the singlemost important program in the country. You can make headlines any time you touch it.

The way to get continuity and concentration on the administrative problems of Social Security, of getting better services in those local offices, is to get an administrator who is taken out of politics and policy, the same way that the Commissioner of Internal Revenue has been taken out of it.

Back in the old days they did that because Commissioners got into trouble when they were more political.

Mr. **Archer**. Thank you very much.

Mr. **Donnelly**. Mr. Gregg.

Mr. **Gregg**. This Department of Income Security, is that what you called it?

Mr. **Ross**. Yes, sir.

Mr. **Gregg**. I take it you would have in that department, not only Social Security, but you also would have Civil Service and all other forms of income security that the Federal Government funds?

Mr. **Ross**. Not in terms of administration, but in terms of policy focus. Yes, I think it would be very desirable to have a Cabinet officer who came up here and sat where I am sitting, and explained to you why military pensions are one thing, Civil Service pensions are another thing, Social Security recipients get a third thing, Members of the Congress get a fourth thing, and so on.

I think the inequities and the differences that are done on a random basis, random largely because they have developed historically. In time the differences are going to undermine confidence in the Federal Government's ability to treat everybody fairly, and the only way to get a focus on why people get different amounts from the Government, is to have some Cabinet officer somewhere with policy responsibility.

I certainly would not want everything administered out of one agency, because it is half the Federal budget. I would leave the administration where it is for the time being, except in the case of Social Security, where I would make it more independent, like IRS, so you get away from the instability of leadership there.

Mr. **Gregg**. You would make it then a Cabinet level position?

Mr. **Ross**. The Social Security Commissioner?

Mr. **Gregg**. The income——

Mr. **Ross**. The Income Security Department would be headed by a Cabinet member. I would eliminate the Department of Health and Human Services, because I think that is a misnomer of what goes on there. The single biggest activity of the Secretary of Health and Human Services is income security, not health nor human services.

Mr. **Gregg**. Do you think there is enough identification of policy interest so you could merge them all under one Cabinet level, and not have inherent conflicts?

Mr. **Ross**. Policywise you could, because I think somebody who becomes a focal point for studying the various pension measures would be of great assistances to the President in coming to grips with it, and of great assistance to the Congress, and people like yourself. You really do not have anybody to talk to when you want to compare the various kinds of pensions that the Government is giving out to people.

You might call the Director of OMB, Mr. Stockman, up here, but the problem with that is his approach is budgetary, not programmatic. What you want is somebody who understands pensions, and who can come up here and explain to you why you have all these differences in all these programs.

I think when he or she got done explaining, you would find there is very little rationale for it.

Mr. GREGG. Thank you.

Chairman JONES. Thank you very much.

Stan, you say about 50 percent is income security in the budget?

Mr. ROSS. Between a third and 40 percent is military, Civil Service retirement, and Social Security.

Chairman JONES. What else are you including?

Mr. ROSS. I would include Medicare. I would include a lot that is in the Veterans Administration, and the other pensions that you have. GAO did a study a few years back, and also came close to a 50 percent number, if you add the amounts from all the departments.

Chairman JONES. Why do you suppose Social Security is so much, much more unstable in the continuity of this leadership than, say, IRS over the last 10 or 15 years?

Mr. ROSS. It is because the Commissioner is a political and policy official, rather than an administrator. If you simply let the Commissioner focus on the fair administration of the laws, and the quality of the service being delivered to the public, the way the IRS Commissioner does, and you do not have him or her coming up here constantly to testify on the substantive issues of the program, but have the Secretary of HHS do that, the way the Secretary of Treasury does with tax policy, I think you will get the same kind of stability in the Commissioner's role that you get with IRS.

Whereas, I think moving it to an independent, separate agency, will not achieve that, because the Commissioner will still be up here talking about policy, and with even less ability to do so, because he or she will be segmented out from the rest of the executive branch.

I think whom you want to talk to when you are talking Social Security policy is either the President, or his designated spokesperson. I think the Congress will have more difficulty dealing substantively with this program if it is in a separate agency, than it does now, and you know, I would not minimize the problem it has now.

Chairman JONES. Mr. Donnelly.

Mr. DONNELLY. Thank you, Mr. Chairman.

I think it is a pretty good idea on face value.

The question that I have is why are you including in this individual's administrative duties other things other than Social Security? Does it include Civil Service retirement, military retirement?

Mr. ROSS. I would not. I would not have the Commissioner of Social Security do anything but run that program, and concentrate on the computer systems, and the facilities and the personnel for that program.

No, I just think there should be a Secretary somewhere who takes a look at these things, as a policy matter, but administratively I would narrow the Commissioner's job, not broaden it, so that we do get continuity, and we do get some of these very important issues that concern the public addressed.

Mr. DONNELLY. Thank you, Mr. Chairman.

Chairman JONES. Mr. Gregg.

Mr. GREGG. Let me ask one more followup question.

Is that essentially what we have got now? You have got a Commissioner who answers theoretically to the Department, to HHS, and the Secretary of HHS can come up here?

Mr. ROSS. No, sir. Right now, when you want to deal with Social Security, the Commissioner comes up and deals with the policy issues.

Mr. GREGG. We do not have to do that.

Mr. ROSS. No.

Mr. GREGG. The administration has made that decision, but policywise the administration could make the decision to have the Secretary of HHS come up and address it?

Mr. ROSS. It could, but generally speaking, that has not been the tradition, whereas with the Treasury and the IRS Commissioner, that is the tradition. I am suggesting you could change that tradition more easily by giving the Commissioner a clear administrative role, instead of asking the Commissioner to come up here and deal with issues like COLA adjustments. You deal with that with a politician who can address policy, and is not under orders from OMB. You are frustrated too, and I understand it.

Mr. DONNELLY. Would the gentleman yield?

We keep inviting the Secretary up, but she does not come.

Mr. ROSS. That is another major problem, that you have had very few Secretaries of that department who are really expert enough to come up and deal with the substance of Social Security matters. That is why I would redesignate the Department an Income Security Department, so somebody would get appointed and confirmed who would develop the expertise to help you address these very important pension issues.

Mr. GREGG. If the gentleman will yield, maybe we can get together over this on the plane to Boston, the next time.

Chairman JONES You might ask the Secretary if she could respond to our letters, too. It would be helpful.

Are there further questions?

[No response.].

Chairman JONES. Thank you very much, Stan.

Mr. ROSS. Thank you for the opportunity to see you once again.

Chairman JONES. Thank you.

Our next witness is the Acting Commissioner of Social Security, Mrs. Martha McSteen, who will be accompanied by John O'Shaughnessy, the Assistant Secretary for Management and Budget of HHS.

Welcome, Mrs. McSteen. Good to see you.

John, nice to see you in a different role. John was at the House Budget Committee for quite some time.

Your testimony will be included in the record in its entirety. We ask you to summarize; and we will go into questions, particularly on the questions on the independent agency, and taking the Social Security out of the unified budget.

STATEMENT OF MARTHA A. McSTEEN, ACTING COMMISSIONER OF SOCIAL SECURITY, DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY JOHN O'SHAUGHNESSY, ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET

Mrs. McSTEEN. Mr. Chairman, I am pleased to be here today to discuss two important issues in which the subcommittee has expressed interest.

I would like to begin my statement by commenting on the relationship between Social Security financing and the unified Federal budget, and then turn to the issue of establishing the Social Security Administration as an independent agency within the executive branch.

In recent years a lively debate has developed on how best to display Social Security income and outgo in the Federal Budget. Concern has been expressed that inclusion of the Social Security Programs in the unified budget has led to decisions that serve budget objectives unrelated to the purposes of the Social Security system. These concerns led the majority of the members of the National Commission on Social Security Reform to recommend, in 1983, that the operations of the OASI, DI, HI and SMI Trust Funds be removed from the unified budget.

Based on the Commission's recommendation, the Congress included a provision in the Social Security Amendments of 1983 that requires the receipts and the expenditures of the four Social Security Trust Funds to be treated as a major functional category in the budget beginning in fiscal year 1985, and excludes the operations of the three payroll tax-financed trust funds from the budget beginning in fiscal year 1993.

Nevertheless, with the improvements in OASDI financing approved in the 1983 amendments, the balances in these trust funds are projected to increase dramatically over the next several decades. The growth in trust fund assets that will be needed to help meet benefit obligations when the baby boom generation reaches retirement age will produce reserve levels that could have profound effects on the economy over the next several decades.

Regardless of how trust fund operations are presented, policymakers in the administration and the Congress will need to be particularly alert during this period to the interrelationships between income and outgo to the trust funds and overall Federal fiscal policy.

At this point, I would like to turn to a discussion of the concept of SSA as an independent agency. In my testimony before this subcommittee last year I indicated that the administration did not endorse the changes in the Social Security Administration as presented in the report of the Congressional Panel on Social Security Organization. The administration's views on the wisdom and feasibility of making SSA an independent agency within the executive branch have not changed. As I said in testimony before this subcommittee here last year, we believe that establishing SSA as an independent agency would weaken important linkages between SSA and other agencies in the executive branch, fragmenting policy coherence, and requiring costly duplication of administrative resources.

SSA is particularly close to the Health Care Financing Administration, since OASDI and Medicare share many eligibility and coverage provisions, and their recordkeeping processes are highly integrated. Likewise, the Supplemental Security Income and the Medicaid Programs share certain eligibility requirements and procedures. Service to beneficiaries and recipients of benefits paid under all of these programs could suffer if an organizational change made it more difficult for SSA and HCFA to coordinate both policy and operations.

Moreover, Mr. Chairman, even if the administrative structure were changed to make the Social Security Administration an independent agency, its size, complexity, interrelationship with other agencies, and sheer importance to so many people would never allow it to operate independently.

We do not, therefore, endorse the concept of establishing the Social Security Administration as an independent agency.

Mr. Chairman, we will be pleased to respond to any questions you may have.

[The prepared statement follows:]

Statement of Martha A. McSteen, Acting Commissioner of Social Security

Mr. Chairman, I am happy to be here today to discuss two important issues in which the subcommittee has expressed interest. I would like to begin my statement by commenting on the relationship between Social Security financing and the unified Federal budget and then turn to proposals for establishing the Social Security Administration (SSA) as an independent agency within the executive branch.

It may help to begin a discussion of Social Security and the Federal budget by stating a few basic facts. First, Social Security taxes paid by employees, employers and the self-employed, as well as the relatively small amounts of income to the system from other sources, are kept separate from other income to the Federal Government and held in the Social Security trust funds. Under the law, these trust fund monies may be used only to pay Social Security benefits and administrative costs. A Board of Trustees composed of the Secretaries of Treasury, Labor, and Health and Human Services and two public members issues an annual report of the operations of the trust funds along with projections of the future financial condition of the funds based on alternative sets of economic and demographic assumptions.

Second, any amounts in the Social Security trust funds not needed immediately to pay benefits or administrative expenses are, by law, invested in U.S. Government securities with interest rates in effect determined by the private market for Government bonds. These securities are assets of the trust funds and liabilities of the U.S. Government and, as such, form part of the national debt. They can be redeemed at any time if funds are needed to meet the expenses of the Social Security system.

These basic facts about the nature of the trust funds and how they are invested have not changed since the early years of the program. In more recent years, however, a lively debate has developed on how best to display Social Security income and outgo in the Federal budget. Up through the mid-1960's, the operations of the Social Security trust funds were excluded from the so-called "adminstrative budget." Nonetheless, information on trust fund operations was made available publicly and was combined, for purposes of economic analysis, with the adminstrative budget in special summary tables published in the annual budget document.

In 1967, a Presidential Commission on Budget Concepts recommended that the Social Security trust funds, along with other Federal trust funds, be included in what is called the "Unified" Federal budget. The Commission's primary aim was to do away with competing budget presentations, each of which gave a partial and somewhat distorted view of the Government's financial plan, and substitute a single unified presentation with complementary components to provide detail.

Conceptually, the Commission members felt that it was valid to expand the boundaries of the Federal budget to include trust fund programs because these programs were within the control of the Federal Government—authorized by the Congress, administered by the executive branch and subject to legislative change at any time. In a practical sense, they felt compelled to recommend the change because trust fund programs had grown large and were continuing to grow more rapidly than the other Federal programs previously included in the administrative budget. The Commission maintained that the "identity and integrity" of trust fund transactions and balances could and should be preserved within a unified Federal budget, and that inclusion of the trust funds in the overall budget totals would facilitate the development of Federal fiscal policy and assist the Treasury Department in managing the Federal Government's cash resources and the public debt. Perhaps of most significance was the Commission's belief that a unified budget presentation would provide the public with information on the spending priorities of the Federal Government and the stewardship of taxpayer dollars.

Beginning in fiscal year 1969, the presentation of the President's budget was modified to include trust fund programs, including Social Security. A few years later, the Congress implicitly endorsed this approach when it established its new budget review process under the Congressional Budget and Impoundment Control Act of 1974. More recently, however, there has been concern that inclusion of the Social Security programs in the unified budget subjects them to budget decisions that are not related to the financial status of the trust funds.

These concerns led the majority of the members of the National Commission on Social Security Reform to recommend in 1982 that the operations of the OASI, DI, HI and SMI trust funds be removed from the unified budget. The commission majority argued that this removal would imporve the likelihood that changes in Social Security would be made only for reasons directly related to the programs. A minority of the Commission members, while agreeing that Social Security changes should not be related to deficit reduction decisions, concluded that omitting programs as large as OASDI and Medicare (about one-fourth of the total) from the budget would "misrepresent the activities of the Federal government and their economic impact." They favored a separate line item entry for Social Security within the unified budget.

The Congress included a provision in the Social Security Amendments of 1983, which requires that, beginning in fiscal year 1985, the expenditures of the four Social Security trust funds be treated as a "major functional category" in both the Presidential and congressional budgets, with receipts shown separately as well. Later, beginning in fiscal year 1993, the operations of the three payroll tax financed trust funds are to be excluded entirely from the totals of both budgets, while the SMI trust fund, which is financed primarily from general revenues, will continue to be treated as a separate functional category within the Presidential and congressional budgets.

Interest in the link between Social Security and the total financial operations of the Federal Government has been hieghtened by a growing awareness that, with the improvements in OASDI financing approved in the 1983 amendments, the balances in these trust funds are projected to increase dramatically over the next several decades. When the "baby boom" generation reaches retirement age, these accumulated reserves will be needed to help meet benefit obligations. Because these changes in reserve levels could have profound effects on the economy over the next several decades, it is clear that the taxing, spending and borrowing decisions of the Federal Government as a whole must take trust fund operations into account. Whether these trust fund operations are presented in a "unified" budget format or are presented in some other way, policymakers in the Administration and Congress will need to be particularly alert during this period to the interrelationships between income and outgo to the trust funds and overall Federal fiscal policy.

At this point, I would like to turn to a discussion of the concept of SSA as an independent agency.

I appeared before this subcommittee last July to present the Administration's views on the recommendations of the Congressional Panel on Social Security Organization. That Panel, as you know, was created by the 1983 Social Security Amendments and was asked to consider how a plan to establish SSA as an agency outside the Department of Health and Human Services might be implemented. Although the Panel did not comment on the advisability of such a plan, it did make a series of recommendations about how best to carry it out if it were approved.

In my testimony last year, I indicated that the Administration did not endorse the changes in the Social Security Administration as presented in the Panel's report. The Administration's views on the wisdom and feasibility of making SSA an independent agency within the executive branch have not changed. Since that time, there has, or course, been continued interest in the idea on the part of some Members of Congress, including the distinguished former chairman of this subcommittee, Representative Pickle, who, along with Representative Archer and others, recently introduced legislation on the subject. The provisions of this bill differ in a number of important ways from the Panel recommendations, but our concerns about the independent agency concept apply to both of these approaches and to the other bills that have been introduced in the House and Senate.

In essence, we believe that establishing SSA as an independent agency would weaken important linkages between the agency and the President and between SSA and parallel agencies within HHS. These linkages are valuable to us and to the public we serve in ways that may not be readily apparent.

As a cabinet member, the Secretary of HHS reports directly to the President, who is, in turn, directly accountable to the electorate. The President and the Secretary of HHS are thus in an excellent position to provide policy leadership on Social Security issues, as in 1981, when President Reagan took the unusual step of appointing a bipartisan Commission to resolve Social Security financing problems. Moreover, many of the independent agency proposals under consideration would weaken SSA's ties with executive branch support agencies under the President's leadership. Those agencies and the expertise and resources to help us with our space and procurement needs, in the case of the General Services Administration, and personnel needs, in the case of the Office of Personnel Management.

SSA also benefits from its close ties to other agencies under the HHS Umbrella. SSA is particularly close to the Health Care Financing Administration (HCFA), since OASDI and Medicare share many eligibility and coverage provisions and their recordkeeping processes are highly integrated. Likewise, the supplemental security income and the Medicaid programs share certain eligibility requirements and procedures. Service to beneficiaries and recipients of benefits paid under all of these programs could suffer if an organizational change made it more difficult for SSA and HCFA to coordinate both policy and operations. In addition to the administrative disruption, this move would involve another very practical consideration; that is, removal of SSA from HHS would eliminate many of the administrative economies inherent in a large Government department, requiring expenditure of trust fund monies for the establishment of duplicative and expensive payroll, personnel and other support structures now operating efficiently in HHS.

Let me conclude, Mr. Chairman, by noting that the very size and character of the Social Security programs mean that even marginal changes in programs of such magnitude and importance have a profound effect on all elements of our society. Expenditures for the Social Security programs comprise about 40 percent of the Federal domestic budget, and benefits are paid to 37 million individuals each month. Even if the administrative structure were changed to make the Social Security Administration an independent agency, its size, complexity, interrelationships with other agencies and sheer importance to so many people would never allow it to operate independently. Even if it were possible, it would not be at all desirable to insulate an agency which makes decisions affecting millions of people and manages billions of trust fund dollars from external influences and scrutiny.

Mr. Chairman, this concludes my prepared remarks. I would be pleased to answer any questions you may have.

Chairman JONES. Thank you very much, Mrs. McSteen.

You heard former Commissioner Ross' recommendations, which were also against making SSA an independent agency. He suggested that the Social Security Commissioner be an administrative officer, and that the Secretary of the Department testify and develop policy; and he also recommended changing, or having a reorganization of the Department, in order to make it primarily an income security-related department.

Did you hear his testimony? Would you care to comment on that?

Mrs. MCSTEEN. I was not in the room at the time he testified. I have read some of his statements regarding that.

Of course, I feel that with the current organization and relationships within the Department, because we do have SSI, we do have Medicare, we do have Medicaid and other programs related to both children and the aged within the Department, the linkages there are strong, and we can operate very effectively, as we are now.

Chairman JONES. If it were to be an independent agency that, of course, would take the pressure from OMB off the Social Security Administration, I presume. Is there an advantage to that?

Mrs. McSteen. Well, if we had an independent agency, I would say that there are several problems that would be created. Certainly, with respect to coordination—we all have a very difficult time right now trying to coordinate, given all the proper roles that various people have regarding our programs, and I see that what we now have established in the way of linkages and cooperation is very effective, and I do not see any problem.

I believe that our greatest concern is that SSA could very well use additional delegations, both from OPM, from GSA, and also from the Department. We do find ourselves being constantly reviewed by higher monitoring authorities, and I very much appreciate those higher monitoring authorities, and recognize the role that they have. We could not exist without them, but I must say that in the very recent past we have been bombarded, if you will, with many, many requests for information from all the higher monitoring authorities.

In fact, we have had, since February 4, 84 meetings with GAO, just on systems alone. So it is in this area that I feel Social Security is somewhat limited in its ability to truly manage in today's environment.

Chairman Jones. Questions, Mr. Archer?

Mr. Archer. Mrs. McSteen, thank you for coming to testify before us today.

Is your testimony in opposition to Social Security as an independent agency one that is the firm position of HHS? I assume it is.

Mrs. McSteen. Yes.

Mr. Archer. Has that been cleared with the White House and the President, personally?

Mrs. McSteen. John, do you want to respond?

Mr. O'Shaughnessy. I am not clear that it has been cleared with the President personally. I cannot address that. The testimony has been cleared by the White House, however.

Mr. Archer. I am a little concerned about that, because I think there very well may be a feeling on the part of the President that it would be a good idea, and I would hope that HHS would clear that with the President personally. I may be incorrect in that, but this is a fairly important decision, and I would think it would be the kind of thing that ought to be cleared with the President.

Second, I would like to ask you a specific question relative to the Beneficiary Ombudsman Program that is a part of our bill, H.R. 825.

Do you think that it could be implemented administratively, even if H.R. 825 is not enacted, and would you comment on that section of the bill. In your view, does the function duplicate reviews already performed by the agency, and if not, or not substantially, what staffing would be necessary to implement the beneficiary ombudsman section of the bill?

Mrs. McSteen. We believe that we could establish the ombudsman without the legislation. We do feel that there are in place now a number of safeguards to try and improve our service to the public.

Certainly, as you well know, we have the appeals process, which is very broad, and under which all beneficiaries have a right to appeal, even into the courts. With the amendments, you know, we have the face-to-face interviews in the disability program, and also this special demonstration review that we will have in some of the States in the disability process.

Historically, we and the congressional staff have worked very closely together to attempt to really do what I think an ombudsman would do in the sense of the wording of the bill. We also have public trustees for the first time, representing the public, and bringing forward the public interest, and we are counting on that to be a liaison that will be very profitable.

On the advisory councils, of course, we always do include public members. Our whole system is set up to really answer does each employee feel a responsibility to the person that they are talking to, and do they accept the responsibility for what they are saying to that person. We are trying to instill, and always have tried to instill, into all of our interviewers that they have a responsibility to that individual. That is the most important thing that they have to do at that moment.

Now, that is not to say that there are not times when we really do need someone special to follow a case through, and we would be willing to consider an ombudsman. We have done so in the past. We would have to consider the cost involved for what we get above and beyond the service that we have through our regular channels.

Mr. ARCHER. Have you done any analyses of that additional cost that might be involved? Can you quantify that for us?

Mrs. MCSTEEN. It would depend, of course, on how many people we really put into the process. Initially, when we tried the concept of the ombudsman, we had only one or two people within a region who were responsible for that.

If we truly had an ombudsman, and a staff that would be effective, we probably would be talking about an additional staff of two to three people in each of the regions, and perhaps the same size in headquarters. So, to that extent, it would not be a highly expensive process.

Mr. ARCHER. I have no further questions.

Mr. DONNELLY [presiding]. Mr. Gregg.

Mr. GREGG. If the Social Security fund is running a surplus, the money is going to be used to finance the Federal deficit, assuming there is a Federal deficit, which appears fairly likely.

Under any circumstances, whether it is a separate agency, or whether it is in its present structure, would that not be true?

Mrs. MCSTEEN. Well, as you know, the Social Security trust fund income and outgo stand alone, without regard to whether they are in the unified budget or not, to be used only for payment of Social Security benefits and administrative costs.

Mr. GREGG. So whether or not it is a separate agency, you are going to be using the money, the surplus, to purchase Government bonds?

Mrs. MCSTEEN. That is right.

Mr. GREGG. So as a practical matter, to the extent that impacts the deficit, it does not matter whether it is a separate agency or not?

Mrs. MCSTEEN. That is right.

Mr. GREGG. Thank you.

Mr. DONNELLY. Mrs. McSteen, welcome.

One of the problems that I have with your testimony, and I understand full well your position is just a simple bureaucratic nightmare even in simple things like leasing space.

As I understand the present process, say in Massachusetts, if your Regional Administrator in Massachusetts determined there was a need to open a field office in a certain city, or a certain section of Massachusetts, he will make a recommendation down to your office. Your office then will make a requisition to HHS. HHS will then make a request to GSA. GSA will then go out and put out a process or a bid.

That prospectus will come back to HHS, back to you, back to your regional person. I mean, it is sort of a Byzantine bureaucracy.

I do not understand—maybe even if we do not create an independent agency, there has to be more latitude given to the Administrator of your agency to move forward with simple services and bureaucratic tasks. I think some of the thrust behind the movement toward an independent agency is to unshackle the Administrator of SSA from this bureaucratic nightmare, along with trying to depoliticize the position in terms of public policy.

Let you administrate, and let the executive and the legislature determine public policy. I think that is the thrust of what this subcommittee is attempting to do.

Can you comment on that?

Mrs. McSteen. Well, we feel that we could use additional delegations, and I think your example of space acquisition is a very proper one. We feel that, generally speaking, our people at the local levels could take care of the space acquisition issues. If there are large issues concerning buildings, Federal buildings, maybe we do need some consultation in that connection. But we would welcome additional delegations from the General Services Administration, and I personally believe that we could do a very good job of carrying out that function.

Mr. Donnelly. Now, as I understand it, your testimony this morning had to be cleared with the Office of Management and Budget. There is great concern by some members of this committee that the Office of Management and Budget has just a little bit too much influence in the direction of the running of Social Security Programs.

Clearly, you are not in a position this morning to make much comment about that, but at least I, speaking for some members of the committee, would like to go on record as allowing people who have been placed in positions of administrating to go ahead and administrate, and then come to the Congress and give us the wisdom of your experience.

Thank you very much, Commissioner.

Jack, nice to see you again.

The next witness is Mr. Richard L. Fogel, Director of the Human Resources Division, U.S. General Accounting Office.

For the information of the witnesses, the committee intends to proceed forward and skip the lunch hour.

Your testimony will be included in the committee record and, if possible, summarization of that testimony would be most helpful to the process.

STATEMENT OF RICHARD L. FOGEL, DIRECTOR, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY ROLAND MILLER, SENIOR EVALUATOR, AND ROBERT ROSENSTEEL, EVALUATOR

Mr. FOGEL. Thank you, Mr. Chairman.

I would like to introduce my team, Rod Miller and Bob Rosensteel, who are on the staff that have been looking in detail at Social Security for the last several years. We are pleased to present our views on H.R. 825.

As we stated in our testimony last summer before this subcommittee, there are pros and cons in making SSA independent. We believe that independence for SSA would enhance its ability to present its own viewpoints to the Executive Office of the President, and could enhance the opportunity for improved management. However, we believe that certain provisions in the bill which would create a board to head the agency and authorize special personnel, administrative and budget authorities, need to be reviewed and modified.

To the extent making SSA an independent agency would enhance the ability to attract and retain a top management team, we see a benefit in that regard. However, as we noted last year, independence is not a panacea. It would not guarantee better management, because excellence in management is a function of the leadership qualities of those selected to lead the agency. Furthermore, we believe that improved management could be achieved without making SSA independent. Many of SSA's major problems do not appear to be related to its lack of independence, and as such, will have to be dealt with regardless of where the agency is located.

However, there are key features of this legislation which we believe could help resolve some longstanding operational problems. We believe very strongly that strong and stable leadership is needed to sustain action to solve SSA's management and operational problems. As other witnesses have said, many of SSA's problems have been exacerbated by the number of Commissioners, or Acting Commissioners, and reorganizations that have occurred at SSA over the last decade.

We believe that the best leadership structure for an independent SSA would be a strong single Administrator at the head of the agency. Our position is the same as that of the Congressional Panel on Social Security Organization. The Administrator should be appointed for a statutory fixed term, and be assisted by an advisory board for policy matters.

A Social Security Advisory Board could serve to provide institutional memory on policy issues, and would give the administration and Congress an opportunity to receive bipartisan views on policy issues. We believe the Board should only be advisory, and should have no role in the day-to-day operations of SSA.

Previous studies by us and others have shown continually that agencies run by single administrators operate much more effectively than those run by boards or commissions. Central management agencies of the executive branch have an appropriate role in broad policy development and oversight of agency operations, but these roles should be carried out as unobtrusively as possible. Thus, we support removal of detailed controls, which is the intent of this legislation, but in a way that does not erode the ability of the central management agencies to apply policy and regulations consistently throughout the Government.

In the ADP area, SSA already has substantial responsibility for managing its own procurements, but has not demonstrated the capability to follow prescribed procedures and existing requirements to effectively complete the procurement actions. In our view, formal delegation should not occur until SSA improves in that area. We support the provisions in H.R. 825 that allows contract authority for computer purchases and facilities construction, but only after SSA financial controls have been deemed adequate.

Similarly, we agree with the requirement that SSA requests for staffing and personnel be based upon a comprehensive work force plan, and we believe that raising the current level of pay for SSA key technical and professional staff should aid in attracting and retaining people. However, we are concerned that the legislation appears to grant the board authority to appoint and pay those staff totally at its own discretion, without specific regulations or criteria to protect the interests of the Government.

Similarly, we believe that there may be a legitimate need for SSA to have an increased number of SES and executive level positions, but SSA should justify those positions in accordance with OPM regulations.

We have concerns over the provisions in the bill that would restrict OMB's involvement in the apportionment process. We do not favor constraining OMB's authority under the Anti-Deficiency Act. But we recognize that the mechanism sometimes can be used to the detriment of efficiency agency operations. The Congressional Budget and Impoundment Control Act of 1974 already has provisions to deal with certain actions the President may want to take that are inconsistent with congressional direction. We do not believe that the provision in the bill restricting OMB's authority to use the apportionment process is needed.

Recognizing the concern over how OMB might use the process, we offer the subcommittee the following suggestion. The provision in the bill could be revised to require OMB to report to the Congress any restriction of or deduction from SSA's apportionment, with an explanation of why OMB took that action.

We also support the provision requiring that a beneficiary ombudsman be created in the SSA. That ends our prepared statement. We would be pleased to respond to any questions.

[The prepared statement follows:]

STATEMENT OF RICHARD L. FOGEL, DIRECTOR, HUMAN RESOURCES DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and members of the subcommittee, I am pleased to present our views on H.R. 825, a bill to make the Social Security Administration an independent agency. Because of our continuing work on the effectiveness of management at the Social Security Administration (SSA), my testimony focuses on whether the management and operations of SSA would be improved by making it an independent agency and by the other provisions of the bill.

The bill would, among other things, remove the Retirement, Survivors, and Disability Insurance and the Supplemental Security Income programs from the Department of Health and Human Services and create an independent Social Security Administration headed by a 3-member bipartisan board. It would also establish a Beneficiary Ombudsman within SSA and authorize SSA certain exemptions from central management agencies' personnel, administrative, and budget requirements. It appears that the goal of this bill is to create an independent SSA that would be more insulated from the policies of any given Administration. Accomplishing this goal, it is felt, would increase the public's confidence and trust in the social security system.

As we stated last summer in our testimony before this Subcommittee, there are pros and cons in making SSA independent. We believe that independence for SSA would enhance its ability to present its own viewpoints to the Executive Office of the President and could enhance the opportunity for improved management. However, we believe that certain provisions of H.R. 825 which would create a board to head the agency and authorize special personnel, administrative, and budget authorities, need to be reviewed and modified.

ADVANTAGES OF AN INDEPENDENT SSA

One of the issues that has continually concerned us is the need for strong, effective and continuous leadership at SSA. To the extent making SSA an independent agency would enhance the ability to atttract and retain a top management team, we see a benefit in that regard. However, as we noted last year, independence is not a panacea. It would not guarantee better management, because excellence in management is a function of the leadership qualities of those selected to lead the agency. Furthermore, we believe that improved management could be achieved without making SSA independent. Many of SSA's major problems do not appear to be related to its lack of independence, and as such will have to be dealt with regardless of where the Agency is located. However, there are key features of this legislation that we believe will help mitigate some major longstanding operational problems and provide an environment within which managers can operate more effectively.

STRONG AND STABLE LEADERSHIP NEEDED

We believe that strong and stable leadership is needed to sustain action to solve SSA's management and operational problems. Many of SSA's problems have been exacerbated by the fact that since 1973, SSA has had nine commissioners or acting commissioners and has experienced at least four major reorganizations. More continuity is also needed for the senior career policy and management officials. Since 1979, five different officials have been in charge of the Office of Systems, which has affected organizational continuity and hindered effective ADP systems planning.

We believe that the best leadership structure for an independent SSA would be a strong single Administrator as the head of the agency. Our position is identical to that recommended by the Congressional Panel on Social Security Organization. The Administrator should be appointed for a statutory fixed term and be assisted by an advisory board for policy matters.

A social security advisory board could serve to provide institutional memory on policy issues, and would give the Administration and Congress an opportunity to receive bipartisan views on policy issues. We continue to believe that the board should only be advisory in nature, and should have no role in the day-to-day operations of SSA.

As shown by past studies, boards generally are not as effective as a single Administrator. In those cases where an Administrator has been appointed to manage an agency under the direction of a board, the board frequently became involved in the management of the organization, and this ultimately caused problems in day-to-day operations. Given the problems SSA has experienced in its operations, we do not believe that it should have a management structure that could result in diffused leadership over its operations. A single Administrator would maximize the potential for improving SSA's management.

INCREASED MANAGEMENT AUTHORITY WILL REQUIRE RELATED EXPERTISE AND CONTROLS

The central management agencies of the Executive Branch have an appropriate role in broad policy development and oversight of agency operations. But these roles should be carried out as unobtrusively as possible. Thus, we support removal of detailed controls, which is the intent of this legislation, but in a way that does not erode the ability of the central management agencies to apply policy and regulations consistently throughout the federal government. While we support the objectives of the bill to delegate specific management authorities to SSA, these authorities should not be made effective until SSA has shown that it has the requisite management expertise to effectively carry them out.

In the ADP area, SSA already has substantial responsibility for managing its own procurements, but has not demonstrated the capability to follow prescribed procedures and existing requirements to effectively complete the procurement actions. In our view, formal delegation should not occur until SSA, among other things, improves its technical reviews of ADP acquisition proposals, and strengthens its system organizational structure.

While delegating the authority for administrative services may improve SSA's ability to take care of its space needs, some of the difficulty experienced by GSA in acquiring space will more than likely also be experienced by SSA. For example, in our past work we found that many of the least acceptable SSA offices were located in the inner cities. GSA experienced great difficulty in locating rental space that met all or most of SSA's unique needs. We have no reason to believe that SSA will not have a similar experience.

We support the provision in H.R. 825 that allows contract authority for computer purchases and facilities construction to cover the total cost of such acquisitions, and be available until expended, but only after SSA's financial controls have been deemed to be adequate. While such funding may increase the likelihood that projects will be completed without interruptions once they have been approved, there is no assurance that the government will get what it pays for without reliable financial information and reporting on costs and performance.

We agree with the requirement that SSA requests for staffing and personnel be based upon a comprehensive workforce plan. Although ongoing work by us shows that SSA's work measurement system needs improving to be a reliable basis for work force planning, we believe SSA can make these improvements.

We believe that raising the current level of pay for SSA's key technical and professional staff, as the bill would allow, should aid in attracting and retaining quality people. However, we are concerned that the legislation appears to grant the board authority to appoint and pay those staff totally at its own discretion, without specific regulations or criteria to protect the interests of the government.

Similarly, we believe that while there may be a legitimate need for SSA to have an increased number of SES and executive level positions, we believe SSA should be required to justify the extent of such an increase in accordance with OPM regulations. The bill would authorize a doubling of SSA's current SES positions.

We also have concerns over the provision in the bill that would restrict OMB's involvement in the apportionment process. We do not favor constraining OMB's authority under the Antideficiency Act. But we recognize that the mechanism can sometimes be used to the detriment of efficient agency operations. The Congressional Budget and Impoundment Control Act of 1974 already has provisions to deal with certain actions the President may want to take that are inconsistent with congressional direction. We do not believe the provision in H.R. 825 restricting OMB's authority to use the apportionment process is needed. But recognizing the concern over how OMB might use the process, we offer the following suggestion. The provision in the bill could be revised to require OMB to report to the Congress any restriction of or deduction from SSA's apportionment with an explanation of why OMB took that action.

RESPONSIBILITIES OF KEY OFFICIALS SHOULD BE CLARIFIED

The provisions of H.R. 825 which delineate the responsibilities of the Board, the Commissioner, and the newly-created Beneficiary Ombudsman should be clarified. As we read the responsibilities of the Board and the Commissioner, it appears there could be some duplication in their responsibilities for (1) the administration of the programs, (2) structuring the organization of the agency, and (3) making annual budget recommendations to the Congress. The role of the Commissioner to direct the operations of SSA needs to be clearly delineated.

Regarding the Beneficiary Ombudsman, the bill does not state to whom the Beneficiary Ombudsman reports. The role of the Ombudsman in representing beneficiaries could be rendered ineffective unless this person reports at a very high level within the organization, such as to the board or to a single Administrator. We support the establishment of a Beneficiary Ombudsman to sponsor and support benficiary interests. In our testimony of April 3, 1985, before your Subcommittee on the planned SSA staffing cuts and potential field office closings, we stated the need for proper monitoring of the impact on public service of these budget cutting measures. We believe that the creation of an Ombudsman who could represent the rights of the beneficiary in such circumstances would better reflect the beneficiaries' interest and could contribute to improving the level of public confidence in the administration of the social security programs.

Mr. Chairman, that concludes my testimony. We would be happy to answer any questions.

Mr. DONNELLY. In your prepared testimony you stated you thought it was important for the agency to have a single strong Administrator, and as I was saying to Mrs. McSteen, I think that is one of the thrusts of this legislation. She is a classic example of what is wrong with the administration.

Here we have a wonderful employee, but she has been a holdover for 20 months as Acting Commissioner on the job. Her testimony has to be approved by the Office of Management and Budget, before she comes to Congress, not to testify on policy decisions, but to testify on administrative practices.

I do not think that the present situation makes for a single strong Administrator, and makes the delivery of services beyond the policy decisions, because the policy decisions have already been made, very inefficient and ineffective.

Could you comment on that?

Mr. FOGEL. I would, generally, agree with what you said. We think several things could be done to make the Commissioner's position stronger. One would be to have a statutory fixed term. That really strengthens the role of whoever is the Commissioner, because that person has some sense of security, some sense of independence.

Indeed, the longer the term, the better, as far as we are concerned, because we believe that SSA is a very difficult agency from a managerial perspective.

Mr. DONNELLY. Do you have any recommendation on specifically what term, how many years?

Mr. FOGEL. We favored a 4-year term, coterminus with the President, for constitutional reasons. I know the bill has a 5-year term. We would certainly favor renewal of that term, if at all possible.

There are some other things that could be done. They basically have to do with giving the SSA Commissioner certain delegations as, indeed, Mrs. McSteen mentioned, and we favor those, if SSA is properly organized to pick those up.

Mr. DONNELLY. Leasing space, those types of things?

Mr. FOGEL. Yes; although I would point out that a lot of the difficulties that SSA has in leasing space are in areas of the inner city, where it is difficult to deal with. We certainly are not opposed to the delegations, but everyone should recognize it is going to be difficult to deal with those problems, regardless of whether it is SSA or GSA. But it should certainly be resolved quicker if SSA does it itself.

Mr. DONNELLY. I do not know whether you were here when Mr. Ross testified, one of the former Commissioners.

Mr. FOGEL. Yes.

Mr. DONNELLY. He recommended establishing an agency set up on the model of the IRS, with policymaking decisions made by the Secretary of Treasury, administrative decisions made by the Commissioner of the IRS.

Would you comment on that recommendation?

Mr. FOGEL. Yes; I would be glad to, and I might say, that for 4½ years I was the GAO official responsible for GAO's reviews of the tax administration area, so I am speaking from some personal experience in looking at how Treasury operated.

When we testified last summer before the subcommittee, we said that we thought that relationship was a viable alternative to independence, but it has to do as much with the state of mind and the values that the administration and the Congress have toward the agency, as it does with any statutory provisions.

There are definitely benefits to looking to the Commissioner of IRS as the individual responsible for administering the laws, and recognizing, though, that the Commissioner also plays a role in tax policy. He is consulted by the Assistant Secretary and the Secretary of the Treasury on issues, but he is not the leading spokesperson on policy issues. That insulates him some, and gives him the ability to focus more on how to run the IRS effectively.

We think that is a viable alternative. As Mr. Gregg pointed out earlier, we could have that same type of relationship in HHS, and we could have had it in HEW in the past, but we have not. When you look at what has happened in HEW, you have to look at the history of the past 13 to 14 years, where no one in the Department has really tried to develop that type of a relationship between the SSA Commissioner and Secretary. That could occur now, if any administration wanted it to, and they have not been willing to.

Mr. DONNELLY. If the Secretary of HHS determined that that would be policy?

Mr. FOGEL. That is right. But I would point out the Secretaries have turned over almost as frequently as the Commissioners, so you are dealing with a dilemma as to whether you could achieve that type of continuity and value system in HHS that now exists in the Treasury Department.

Mr. DONNELLY. Mr. Gregg.

Mr. GREGG. Thank you.

You made a number of recommendations, where you felt the bill was inappropriate, especially in dealing with personnel and salaries, as I understand it, and then again in OMB's involvement in the apportionment process.

Do you folks have language, or is it within your prerogative to present us with language?

Mr. FOGEL. Yes; we would be pleased to provide you with language to suggest modifications along the lines we suggested here.

Mr. GREGG. I would appreciate it.

Thank you very much for your testimony.

Mr. DONNELLY. It has been suggested that you are currently having problems in access to SSA documents relevant to the study of the implementation of the 1984 disability amendments.

Mr. FOGEL. That is true.

Mr. DONNELLY. Has the source of the problems been in HHS, or OMB?

Mr. FOGEL. I think it is in the Social Security, in HHS, and in OMB. One of the critical things that we need to do our job—in fact, in this case, to respond to requests from this subcommittee—is to have access to documents. We have requested those documents from SSA. They have advised us that they have been directed by HHS and OMB not to provide them to us on a timely basis, and in effect, to tough it out.

We have ample statutory authority under our own legislation to secure access, and we are initiating legal action pursuant to our legislation to demand that the information be given to us.

Mr. DONNELLY. We intend to tough it out on our end, too.

Mr. FOGEL. We really appreciate any support you could give us in this matter, but you are right in saying the problem is just not at SSA. It goes to HHS and OMB.

Mr. DONNELLY. Thank you very much, gentlemen.

Mr. FOGEL. Thank you.

Mr. DONNELLY. The next witness is the Director of the Congressional Budget Office, Dr. Rudolph G. Penner.

Rudy, please proceed.

STATEMENT OF RUDOLPH G. PENNER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. PENNER. Thank you very much, Mr. Chairman.

I am pleased to testify today on the issue of removing the Social Security trust funds from the unified budget. The Congressional Budget Office (CBO) begins with the belief that the Federal budget should be comprehensive—that is, we think that all Federal spending and receipts should be included in the budget.

The question that we must then address is, Does the unique character of Social Security warrant excluding these trust funds from the budget? In my statement this morning, I will first explain why we consider a comprehensive budget to be necessary. I will then discuss the arguments for and against removing the Social Security trust funds from the budget.

Social Security was placed on-budget in fiscal year 1969 at the recommendation of the President's Commission on Budget Concepts. The Commission wrote in its report, and I quote, "different and competing budgets confuse public and congressional understanding and impede governmental decisionmaking." This principle—that the budget should be a comprehensive report of the full range of Federal activities—is still valid today.

The unified budget is constructed to show clearly the flow of cash to and from the Federal Government. Decisions made on spending programs or on taxation can be easily translated into increases or decreases in the deficit and in the Government's need to borrow. The size of the deficit influences interest rates and the Government's interest costs. The extent of Government borrowing determines how much Government debt will compete with private equity and debt in the portfolios of private investors, thereby crowding out private investment or increasing our debt to international lenders.

The budget should also be comprehensive to allow the Congress to make informed decisions on how to allocate public moneys and how to levy taxes. Decisions on spending levels for each Federal program should be based on comparisons with the spending levels of other Federal programs. Similarly, tax policy should be made in the context of all revenue measures. For example, the incidence of the Federal tax structure can only be considered with knowledge of all tax burdens, including payroll taxes.

Because of the need to maintain the focus on Federal borrowing and the need to facilitate tradeoffs, CBO believes that the Social Security funds should be included in the budget totals. The main reason is simple: Social Security constitutes roughly one-quarter of Government outlays and one-third of Government revenues. Removing these outlays and revenues from the budget would result in an inaccurate, misleading report on the Government's finances. The reported "size of the Government" would, in fact, be only three-quarters of its actual size, and the reported payments of benefits to individuals would be less than half of actual payments.

The calculation of the Government's borrowing needs would be unnecessarily complicated. Treasury documents would have to add a "regular budget deficit" to a "Social Security deficit or surplus" to arrive at the "total deficit" to be financed through borrowing. To some extent, this problem already exists because of current off-budget funds, but excluding Social Security would worsen the situation appreciably. It seems clear that the end result would be greater public confusion about the Federal budget and about the Social Security Program.

The Social Security Amendments of 1983 require that three of the funds—old age and survivors insurance, disability insurance, and hospital insurance—be excluded from the budget totals beginning in fiscal year 1993. The fourth fund—supplementary medical insurance—would remain on budget.

The National Commission on Social Security Reform recommended this change in budget treatment to ensure that changes in Social Security would be made only for programmatic reasons and not for the purpose of balancing the budget. Other reasons for removing Social Security from the unified budget were cited in the debate on the bill. Some proponents argued that Social Security should be removed from the budget to protect its viability as an intergenerational retirement program. Probably the most pervasive argument for removing Social Security from the budget was that it was unique, unlike other Federal programs—a social insurance program financed by its own worker tax contributions. In fact, many people believe their contributions earn them a right to receive a level of benefits in the future that is fixed in value at the time of contribution. They see no need for Social Security to be included in the budget if the level of benefits cannot be changed and if Social Security receipts cannot be used for other purposes.

The remainder of my testimony discusses the question is, Social Security unique? We maintain that basically it is very much like any other transfer system. While it does have similarities to private annuities, it is very different in the sense that people do not own a certain deposit in a certain account on which they can then draw.

We also point out that the funds to be excluded from the budget will have a substantial surplus for the rest of this century at least and thus the reported deficit, without those funds in it, would look much higher than it actually is.

In conclusion, CBO does not make recommendations on issues of program policy. But when asked, we have commented on budget procedures and presentation issues.

Social Security is, after national defense, the largest single activity of the Federal Government. All debates on fiscal policy will have to consider the total borrowing requirements of the Federal Government—the Social Security balance, as well as the balances of revenues and expenditures for other Government activities. Similarly, debates on tax policy and the allocation of spending will have to recognize the revenues and expenditures of Social Security. We believe that public understanding of these debates will be improved if they are carried on within a comprehensive Federal budget. We do not believe that inclusion of Social Security in the budget will compromise the commitment of the Government to provide secure and adequate social insurance. We, therefore, recommend that the requirement that Social Security be removed from the unified budget be repealed.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

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NEED FOR A COMPREHENSIVE FEDERAL BUDGET

Social Security was placed on-budget in the fiscal year 1969 budget at the recommendation of the President's Commission on Budget Concepts. The Commission wrote in its report, "different and competing budgets confuse public and congressional understanding and impede governmental decision-making." This principle—that the budget should be a comprehensive report of the full range of federal activities—is still valid today.

The unified budget is constructed to show clearly the flow of cash to and from the federal government. Decisions made on spending programs or on taxation can be easily translated into increases or decreases in the deficit and in the government's need to borrow. The size of the deficit influences interest rates and the government's interest costs. The extent of government borrowing determines how much government debt will compete with private equity and debt in the portfolios of private investors, thereby crowding out private investment or increasing our debt to international lenders.

The budget should also be comprehensive to allow the Congress to make informed decisions on how to allocate public monies and how to levy taxes. Decisions on spending levels for each federal program should be based on comparisons with the spending levels of other federal programs. Similarly, tax policy should be made in the context of all revenue measures. For example, the incidence of the federal tax structure can only be considered with knowledge of all tax burdens, including payroll taxes.

Because of the need to maintain the focus on federal borrowing and the need to facilitate tradeoffs, CBO believes that the Social Security funds should be included in the budget totals. The main reason is simple—Social Security constitutes roughly one-quarter of government outlays and one-third of government revenues. Removing these outlays and revenues from the budget would result in an inaccurate, misleading report on the government's finances. The reported "size of the government" would, in fact, be only three-quarters of its actual size, and the reported payments of benefits to individuals would be less than half of actual payments. The calculation of the government's borrowing needs would be unnecessarily complicated. Treasury documents would have to add a "regular budget deficit" to a "Social Security deficit or surplus" to arrive at the "total deficit" to be financed through borrowing. To some extent, this problem already exists because of current off-budget funds, but excluding Social Security would worsen the situation appreciably. It seems clear that the end result would be greater public confusion about the federal budget and about the Social Security program.

THE 1983 SOCIAL SECURITY AMENDMENTS

The Social Security Amendments of 1983 require that three of the funds—Old Age and Survivors Insurance, Disability Insurance, and Hospital Insurance—be excluded from the budget totals beginning in fiscal year 1993. The fourth fund—Supplementary Medical Insurance—would remain on-budget. The National Commission on Social Security Reform recommended this change in budget treatment to ensure that changes in Social Security would be made only for programmatic reasons and not for the purpose of balancing the budget. Other reasons for removing Social Security from the unified budget were cited in the debate on the bill: some proponents argued that Social Security should be removed from the budget to protect its viability as an intergenerational retirement program. Probably the most pervasive argument for removing Social Security from the budget was that it was unique, unlike other federal programs—a social insurance program financed by its own worker tax contributions. In fact, many people believe their contributions earn them a right to receive a level of benefits in the future that is fixed in value at the time of contribution. They see no need for Social Security to be included in the budget if the level of benefits cannot be changed and if Social Security receipts cannot be used for other purposes.

IS SOCIAL SECURITY UNIQUE?

Are these accurate perceptions of Social Security and do they warrant removing Social Security from the budget?

In many respects, Social Security is a program much like other income security programs that redistribute income. The Congress regularly adjusts benefit levels and financing sources. The program does not provide an equal potential return on contributions to all people; it provides far greater returns to below-average wage earners than to above-average wage earners. The program, however, has historically provided most beneficiaries with values far in excess of their contributions. Earmarked payroll taxes are not the only source of financing for the program. It also receives, for example, transfers from the Treasury for interest payments on reserves and earmarked for the taxation of income from certain Social Security benefits. If spending from Social Security is reduced or if the rate of its earmarked tax is raised, the federal deficit will be lower, and government will borrow less from the public.

Social Security is similar in very important ways to private annuities and insurance. Many people expect Social Security benefits to provide a substantial portion of their retirement income, and the Congress has repeatedly stated that the program embodies a long-term commitment to provide social insurance. The Congress will not be abolishing or radically altering the program. Nevertheless, the Congress should consider on occasion how much the nation's economy can afford at the margin for social insurance, giving competing claims on the economy and the willingness of taxpayers to pay. Changes in Social Security eligibility requirements, basic benefits, COLAs, and payroll taxes can have important effects not only on the current beneficiaries, but also on other income security and health programs, on tax policy, and on the deficit. These effects can be identified easily within the framework of a comprehensive budget. Similar benefit and eligibility changes in other income security programs—for Supplemental Security Income, for example—are made with a recognition of these effects. If Social Security were exactly like a private pension fund in that participants actually owned accounts containing their own and employers' past contributions and earnings on those amounts, and if they could claim nothing more from the system, there might be some justification for separating the system from other government activities. As we have seen, however, Social Security bears little resemblance to such a private pension plan.

Another issue that the Congress should consider is the effect on the reported deficit of removing Social Security from the budget. The total actual deficit—the net of all government outlays and revenues—would be unchanged. At the same time, the reported deficit would be increased substanatially. The aggregate balance of the Old Age, Survivors and Disability Insurance (OASDI) and the Hospital Insurance (HI) funds is now increasing following the enactment of the Amendments of 1983. Thus, removing Social Security from the budget removes a partial offset to the deficit in the rest of the budget.

Finally, Congress should consider whether removing Social Security from the budget could dramatically reduce the ability of the Congress to make budgetary decisions. Such an act might establish a precedent for removing other accounts from the budget. In the end, there could be a proliferation of federal sub-budgets, completely eroding the usefulness of the budget as an accounting device to illustrate the economic and allocate activities of the federal government. If all trust funds were removed from the budget, for example, the budget would substantially understate government activity and would become incomprehensible. Attached to my statement is an excerpt taken from CBO's 1985 annual report that shows the projected unified deficits and trust fund surpluses for all major trust funds.[1]

CONCLUSION

Mr. Chairman, CBO does not make recommendations on issues of program policy. When asked, we have commented on budget procedure and presentation issues.

Social Security is, after national defense, the largest single activity of the federal government. All debates on fiscal policy will have to consider the total borrowing requirements of the federal government—the Social Security balance, as well as the balances of revenues and expenditures for other government activities. Similarly, debates on tax policy and the allocation of spending will have to recognize the revenues and expenditures of Social Security. We believe that public understanding of these debates will be improved if they are carried on within a comprehensive federal budget. We do not believe that inclusion of Social Security in the budget will compromise the commitment of the government to provide secure and adequate social insurance. We, therefore, recommend that the requirement that Social Security be removed from the unified budget be repealed.

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[1] See the Congressional Budget Office's "The Economic and Budget Outlook: Fiscal Years 1986-1990" (February 1985), page 63.

FEDERAL FUNDS AND TRUST FUNDS

The federal budget is divided into two types of funds: federal funds and trust funds.

Federal fund receipts comprise those taxes and other government revenues that are not restricted to a specific purpose. These receipts and, when necessary, borrowing are used to pay for the general activities of the government, such as national defense, interest on the public debt, income maintenance programs, and most nondefense discretionary spending. Federal funds are sometimes called general funds.

Trust funds collect certain taxes and other receipts (such as interest income, insurance premiums, or sometimes, general fund payments) that are earmarked for specific purposes. The largest trust funds pay for federal social insurance programs--Social Security, Medicare, and federal civilian and military retirement--and for highways and airports.

The current government deficit contains a substantial trust fund surplus offset by an even larger federal funds deficit, as shown in the following table.

(In billions of dollars)

	1985	1986	1987	1988	1989	1990
Federal Funds Deficit	-264	-269	-294	-327	-359	-399
Trust Fund Surpluses						
Social Security	8	8	5	27	40	54
Medicare	5	9	15	9	4	2
Federal civilian retirement	16	18	19	20	21	22
Military retirement	12	12	12	13	14	14
Other	8	8	10	10	9	11
Subtotal	50	54	61	78	88	103
Total Deficit	-214	-215	-233	-249	-272	-296

An increase in trust fund revenues (other than by a transfer of federal funds) or a decrease in trust fund outlays will increase the aggregate trust fund surplus and reduce the total deficit. Although trust fund surpluses cannot be used to pay for federal fund expenditures, they do reduce the Treasury's need to borrow from the public. The Treasury, however, must issue interest-bearing debt securities to the trust funds in the amount of their surplus. These debt holdings represent the trust funds' future claim on the government's cash when the funds' earmarked receipts may--for short or long periods--fall below their spending.

Mr. DONNELLY. Thank you, Rudy.

As you know, Chairman Jones and I just concluded our service as members of the Budget Committee and, very bluntly, I think most of the impetus for this legislation and legislation of this type comes from concern that the budget process and the budget resolution can be used and, in fact, has been used in the past not to set fiscal policy but to make policy decisions and programmatic changes in programs such as Social Security.

The classic example is the 1981 reconciliation where they eliminated things like the death benefits, student benefits, and that really is the genesis of, or at least that is the thrust that contains interest to me. Depoliticize it.

You make a very valid argument that in terms of broad fiscal policy it ought to still be included. How much we are spending if it is, in fact, one-third of the Government's budget in expenditures and a substantial part of our revenues, that it needs to be part of that fiscal blueprint that Congress and the administration has to look at.

My concern, I think, is the reconciliation process when you go beyond fiscal policy and committees with expertise in not just the Social Security areas but other areas are audited through this very political process to make programmatic changes without taking the in-depth or making the in-depth analysis of what should and should not be done.

Could you comment on that?

Mr. PENNER. I think, sir, you have put your finger on what is perceived to be a real problem with the budget process. It was envisioned originally as a process that would set global targets for the aggregates, while passing a resolution that also set targets for certain functions. The theory was, of course, that individual committees would then do their work within those targets and write the appropriate legislation.

There is obviously a conflict in the inherent logic of that. It is very hard to set overall targets without having some concept of how programs would be changed as a result of one target or another.

I have always viewed the process as being an iterative one. You set the targets. You see what that implies for the individual programs. You perhaps reconsider the targets on that basis and so on.

Unfortunately, there simply is not time in any one year to do all of that for the thousands of Government programs. When we are not contemplating radical changes in the structure of the Government or in our national priorities, the iterative process can easily take place over a series of years. I think you are pointing to a difficulty that arose in 1981 when we tried to make a radical change in the national priorities, and that put enormous stress on the budget process itself. But I think it also is very important to point out that it would have put enormous stress on the system even if there were no budget process. That is to say, I think the budget process is sometimes overblamed for the difficulties that we have had since that time. No process, I think, could have endured that pressure well.

Mr. DONNELLY. The thing in my mind that separates the Social Security Trust Fund from the other trust funds—because it has been suggested today, or it has been mentioned that why do we not take other trust funds such as the highway trust fund, aviation, Superfund off the budget—is that the Social Security trust funds deal with the most frail people. It is clearly the largest and deals with the most frail people in American society, many of whom are absolutely and totally reliant upon the continuation of the system and stability in the system, and that again is an impetus to separate this agency, because of its unique relationship with the American people and the type of clients that it serves, from other yearly functions of the Federal Government.

Mr. Gregg.

Mr. GREGG. Thank you.

I was interested in one phrase you used when you were considering what would happen if it went off budget. You said that the deficit would look higher than it actually is, which assumes something I happen to agree with, which is that Social Security does significantly impact the deficit and we have heard a lot of rhetoric to the effect that it does not.

I was wondering if you could give us your views on that.

Mr. PENNER. As I suggested in my testimony, the bottom line of the unified budget, if it is designed properly, tells you exactly how much the Federal Government has to borrow from private sources. And if you do not include Social Security, you do not get that answer. Social Security is now running surpluses and we would expect it to do so certainly through the rest of this decade. Those surpluses are invested in Government bonds. In that way, Social Security in essence finances the deficit of the rest of the Government. The Government bonds that the Social Security trust funds absorb do not have to be sold to the private market. Therefore, to get what I consider to be the most important bit of information from the unified budget, you have to take into account the surplus of the trust funds.

Mr. GREGG. It is sort of ironic during the time we ran a deficit we had it on budget and now it is going to run a surplus, we are going to move it off budget. I would say that is shooting ourselves in the head.

Can you tell me what percentage, or the dollar figure is of general revenues that are now used or go to the Social Security?

Mr. PENNER. I do not have the precise dollar figure for the general revenues. I can provide them for the record. They consist largely of the receipts we get from taxing Social Security benefits and for a few minor transfers that occurred, which are very minor, to support certain benefits. I am not including that, the interest receipts of the fund.

Mr. GREGG. If the trust fund is moved off budget, then it is not going to change the investment aspects, however. The money is still going to be used, lent to the Federal Government, lent to the Treasury to finance the operation of the general activities of the Government, is that correct?

Mr. PENNER. That is correct, yes.

Mr. GREGG. Thank you.

Mr. DONNELLY. I just have one question.

On the last page of your testimony, you list the various trust funds that have surpluses. Military retirement has a surplus?

Mr. **Penner**. Yes, sir.

Mr. **Donnelly**. The Federal Civilian Retirement has a surplus?

Mr. **Penner**. Yes, in terms of the cash-flow.

Mr. **Donnelly**. Not in terms of what the fiduciary responsibility will be down the road?

Mr. **Penner**. No, sir. Not if you look at the balance sheet and put the total liabilities in the Civilian Retirement Trust Fund. It gets steady payment from the general revenues to make up for those unfunded liabilities.

[The following was subsequently received for the record:]

Supplemental Material Supplied by Mr. Penner

The trust funds do receive monies from the General Fund of the Treasury for several purposes in addition to the $5.3 billion they receive as net interest payments on their reserves. In fiscal year 1985, for example, we estimate the OASHI trust funds will receive a total of about $8.8 billion in payments from the Treasury, not including the $3.4 billion in income tax receipts derived from the taxation of certain Social Security benefits. The largest component of the $8.8 billion is the Federal Government's $3.9 billion payment as an employer of workers covered under the Social Security Act. Another $3.1 billion relates to the tax credits for FICA (effective only in calendar 1984) and SECA tax increases that were introduced as a part of the 1983 amendments. The remaining $1.8 billion represents payments for certain uninsured beneficiares, military service credits, HI taxes from the Railroad Retirement Board, uncashed benefit checks, and voluntary HI premiums.

Mr. **Donnelly**. Thank you very much, Dr. Penner.

Our next witness is Mr. Robert Ball, former Commissioner of the Social Security Administration, and a member of the Save Our Security Coalition.

Mr. Ball, welcome, and please proceed.

STATEMENT OF ROBERT M. BALL, FORMER COMMISSIONER OF SOCIAL SECURITY, REPRESENTING SAVE OUR SECURITY COALITION

Mr. **Ball**. Mr. Chairman, I have a rather long statement here. With your permission, I would like to have it in the record in full and then summarize.

Mr. **Donnelly**. Without objection, sure.

Mr. **Ball**. As you suggested, I am representing today the Save Our Security Coalition, known as SOS. This is a coalition of over 100 national organizations, the combined membership of which is something over 40 million persons, and it represents both those who are currently contributing to Social Security, building up protection for the future, and beneficiaries. It has as members many labor unions, senior citizens' groups, groups representing the disabled, church groups, and social welfare groups.

In summary, the position of the SOS Coalition is that it would add significantly to public understanding of the nature of Social Security as a retirement and group insurance plan if the program were managed by a bipartisan board directly under the President, as it was when the program was first established, and if the date of Social Security separation from the unified budget were moved up from the present law date of fiscal year 1993.

SOS also believes that the administration of Social Security would be more effective and efficient if the agency reported directly to the President.

On the question, Mr. Chairman, of separate administration—and these issues are separable, administration and the unified budget—and I wanted to talk first about the issue of separate administration, as provided for in H.R. 825.

It is our view that the management of the system would be made more responsive to the needs of its beneficiaries and contributors if it were free from the frequent changes of levels of service to the public which grow out of short-term decisions about employment ceilings and the varying management value systems which follow changes in administrations and even more frequent changes in policy decisions by the Office of Management and Budget, the Secretaries of HHS and their immediate staffs. But more important than that, the thing that is key to us in our support of this change is that a bipartisan board would be visible evidence that contributory social insurance was distinctly different from other Government programs and was insulated from short-term political considerations. On this point and others, as you will see as I go ahead, I disagree very sharply with Dr. Penner and his view of these issues.

We believe that such a change has the potential for improving the level of service provided by Social Security, and we think that is important, partly because, as is sometimes forgotten, the cost of administration of Social Security, as well as the benefits, are paid from the trust funds. That is, it is borne by the people who contributed to the program—except, of course, the trust funds are reimbursed for the cost of administering the general revenue supported programs such as SSI, which Social Security also administers—but the central core of its job is supported by the contributions of covered workers, and it is our view that they deserve a level of service comparable, at least, to what is furnished by the best private insurance and pension systems.

Today only 1.2 cents out of every dollar of contribution is spent on the administration of the Social Security Program. Now, in some ways, that is an enviable record that one can be proud of. But, on the other hand, while there are duplications and inefficiencies in the system that cost more than they should, the overall cost of administration may actually be too low. There is major room for improvement in service levels.

Now we have budget proposals for drastically reducing the size of staff, by 17,000 people, and closing district offices. Not that the number of offices that ought not to be looked at from time to time, but here I believe it is very clear, Mr. Chairman, that the decision to cut 17,000 staff in the budget and to reduce the number of offices to the extent being talked about was not designed to improve service but to save money in the unified budget. I do not believe that a bipartisan board would have tolerated such an approach, and I do not believe a bipartisan board would have tolerated the heartless and, indeed, scandalous way in which disability insurance has been administered in the last few years.

Now, at the same time, money can be saved through H.R. 825. As the Grace Commission pointed out, The present organizational arrangement, with its staff layering above Social Security in the Department of Health and Human Services invites duplication of work, unnecessary reviews and interference with the performance of the basic mission of the agency. Social Security managers ought to be able to move ahead with what needs to be done without the constant negotiation and second guessing that occurs on clearance through department levels.

What Social Security needs is support for continuing to build a solid career staff that would come from a bipartisan board devoted to the concept of continuity and nonpolitical, nonpartisan administration of quality service.

Now, on the question of the unified budget, Mr. Chairman, the history has already been described by the previous witnesses, and I certainly do not want to take your time to do that. But the decision to remove the Social Security funds from the unified budget in fiscal 1993 was taken following the recommendations of the President's National Commission on Social Security Reform, on which I served and on which Mr. Archer served and which the Congress by and large accepted. I just wanted to quote from the report of the National Commission on this issue of removal from the unified budget, and I quote, "The National Commission believes that changes in the Social Security Program should be made only for programmatic reasons, and not for purposes of balancing the budget." That is a statement of the Commission as a whole, and then the report goes on, "Those," and this is the majority of the members of the Commission, "who support the removal of the operations of the trust funds from the budget believe that this policy of making changes only for programmatic reasons would be more likely to be carried out if the Social Security Program were not in the unified budget."

And I submit, Mr. Chairman, that this view is supported by the fact that we now have these recommendations to cut back on the cost-of-living adjustment for Social Security beneficiaries when the system is financed to supply those cost-of-living adjustments. It is an integral part of the program. The money is there. The reason to cut back is solely budgetary. The reason to cut back on the employees is budgetary. So we are faced not with a theoretical situation but with what the National Commission feared, and that is decisions made not for programmatic reasons but for budget reasons.

Now, as Dr. Penner pointed out, the purpose of an annual budget is to make choices among expenditures, giving preference in the budget to one expenditure over another and to determine who pays what and how much for expenditures, a really competitive process. Well, we believe in SOS that Social Security promises stretching into the distant future, resting on past earnings and contributions and separate financing are not a proper part of this essentially competitive process. The obligations of Social Security are the product of an agreement to furnish certain protection in return for certain contributions. Workers and their employers pay into the program with the expectation of later benefits with the Government acting as the administrator and financial trustee of the system. That does not mean you can never change the program. It has been changed in the past, and it will be again, but it means you act with very special care about the obligations that have been built up and that you phase things in over a long period of time. The changes ought not to be made under the pressure of an annual budget procedure but by the committees that are charged with the substantive responsibility for this program, both in the House and Senate.

The system is adequately financed today, both short and long run. I have included some figures on that in my statement. I do not believe the country understands the size of the surpluses that are being built up in the Social Security trust funds. They are really very, very major under the preferred actuarial estimates of II(b), which is the more pessimistic of the central set. In the next 5 years, old age and survivors and disability insurance under the latest estimates, will build up by about $150 billion. If you include hospital insurance, it is nearly $200 billion, and through 1994 for the OASDI part, it is $450 billion and with hospital insurance, about $500 billion. To treat those huge surpluses as part of the regular budget presentation would be misleading in the extreme. Of course, they have to be combined for economic analysis, but economists are completely capable of adding the numbers together, and before 1969 they took both what was off budget and on budget into account where doing economic analysis.

But to include it in the overall budget runs the danger of bad decisions on Social Security and bad decisions in the rest of the budget. When you put them together, it looks as if that excess money was available for other purposes. And I suggest to you that numbers of this size can actually mask huge general revenue expenditures, let us say a huge buildup in defense, that might not occur if Congress was looking at these as separate items.

Now, it is true, as Dr. Penner said, obviously that Social Security whether it is on budget or off budget helps the financing situation of the Federal Government by lending money under circumstances where the Government does not have to go into the private markets to the same extent. But that is not an on budget or off budget issue. That occurs in either case.

So, Mr. Chairman, for those reasons, this organization of some 100 national organizations, representing 40 million members, is very pleased that Mr. Pickle, Mr. Rostenkowski, Mr. Archer, Mr. Roybal and, I understand now, some 55 cosponsors have introduced this bill. And we hope very much that the subcommittee will give this some priority.

[The prepared statement follows:]

Statement of Robert M. Ball, on Behalf of the Save Our Security Coalition (SOS)

Mr. Chairman and members of the committee, my name is Robert Ball. From April 1962 until March 1973 I was Commissioner of Social Security, serving under Presidents Kennedy, Johnson and Nixon. Prior to becoming Commissioner I served for approximately 20 years in various positions in the Social Security Administration and its predecessor organization, the Social Security Board, and for the 10 years prior to becoming Commissioner I was the top civil servant in the Social Security organization. Since leaving the government I have continued my deep interest in Social Security and have written and lectured extensively on the subject. I was one of Speaker O'Neill's appointees to the National Commission on Social Security Reform which led to the Social Security Amendments of 1983.

I am currently a Visiting Scholar at the Center for the Study of Social Policy, a Senior Consultant to the Study Group on Social Security, and a member of the Executive Committee of the Save Our Security (SOS) Coalition. I am appearing today as a representative of SOS and the views in my testimony do not necessarily represent those of any other organization with which I am associated.

SOS is a coalition of over 100 organizations with a combined membership of 40 million plus adults, and representing both those who are currently contributing to the Social Security system and building protection for themselves in later years and those who are currently receiving Social Security benefits. This Coalition, formed to defend and improve the Social Security Program includes labor unions, senior citizens' groups, groups representing the disabled, church groups and social welfare groups.

SUMMARY OF POSITION

The Save Our Security Coalition (SOS) believes it would add significantly to public understanding of the nature of Social Security as a retirement and group insurance plan if the program were managed by a bipartisan board directly under the President, as it was when the program was first established, and if the date of Social Security's separation from the unified budget were moved up from the present-law date of fiscal year 1993. SOS also believes that the administration of Social Security would be more effective and efficient if the agency reported directly to the President.

SEPARATE ADMINISTRATION

Social Security, which has the equivalent of over 80,000 employees and some 1,300 district officers across the country, is one of the very largest direct-line operations of the Federal Government. It accounts for about 62 percent of the personnel of the Department of Health and Human Services, and is responsible for paying out well over $2 for every dollar spent by all the rest of the Department ($225 billion to $106 billion). It does not make sense administratively to have this huge program, which intimately touches the lives of just about every American family, operate as a subordinate part of another Government agency. Management of Social Security could be made more responsive to the need of its beneficiaries and contributors if it were free from the frequent changes in the levels of service to the public which grow out of short-term decisions about employment ceilings and the varying management value systems which follow changes in administrations and the even more frequent changes in policy decisions by the Office of Management and Budget, the Secretaries of HHS and their immediate staffs. But most important, a bipartisan board would be visible evidence that contributory social insurance was distinctly different from other Government programs and was insulated from short-term political considerations.

We are very pleased that Mr. Pickle, together with Mr. Rostenkowski, Mr. Archer and Mr. Roybal has introduced H.R. 825, which would put Administration of the Old-age, Survivors and Disability Insurance Program and the Supplemental Security Income (SSI) program under such a board. I understand that the bill now has 55 cosponsors. That is very encouraging.

We believe that such a change has the potential for improving the level of service provided by the Social Security Administration to its contributors and beneficiaries. The cost of administration of social security is paid from the trust funds, that is, it is borne by the people who have contributed to the program (except that the trust funds are reimbursed for the cost of administering general revenue supported programs such as SSI), and they deserve a level of service comparable, at least, to what is furnished by the best private insurance and pension systems. This is a self-financed program, and people are paying directly for what they get. Today only 1.2 cents out of each dollar of contribution is spend on Social Security Administration. In some ways this is an enviable record, but, on the other hand, while there are duplications and inefficiencies in the system that cost more than they should, the overall cost of administration may well be too low. There is major room for improvement in service levels. And now we have budget proposals for drastically reducing the size of staff and closing district offices—not to do a better job for Social Security contributors and beneficiaries (no one can believe that), but to save money in the unified budget. I do not believe a bipartisan board would tolerate such an approach, and I do not believe a bipartisan board would have tolerated the heartless, and indeed scandalous, way in which disability insurance has been administered in the last few years.

At the same time, some money can be saved by Mr. Pickle's proposal. As the Grade Commission pointed out, the present organizational arrangement, with its staff layering above Social Security in the Department of Health and Human Services invites duplication of work, unnecessary reviews and interference with the performance of the basic mission of the agency. Social Security managers ought to be able to move ahead with what needs to be done without the constant negotiation and second guessing that occurs on clearance through Department levels.

The Federal Government is not a single, unified business. It dwarfs even the biggest conglomerates in size and in its variety of functions. If this huge collection of activities is to be operated with reasonable efficiency, it must be divided into manageable units and those units put in the hands of administrators chose because of their capability, not primarily because of political loyalty, and they need to be given strong delegations of authority. There needs to be, of course, central control over legislative proposals, the budget, and broad policy in the Office of the President, and control agencies are needed to help the President make sure delegations are being carried out well. But at the same time, it does not help efficiency to group largely unrelated programs into huge umbrella agencies and then force the operating agencies to go through layers of clearance as they try to carry out their mission.

Social Security is one of the best examples of a relatively self-contained entity that would work better if it had more independence and stong delegated authority. Of course it has interrelationships with other agencies. The Internal Revenue Service collects the contributions for Social Security, and the Defense Department pays Social Security contributions on the Armed Forces. Social Security even has a few, but not many, inter-relationships with other parts of HHS, but its main characteristic is that it is a huge direct-line operation of the Federal Government and should be so managed. The Congressional Panel on Social Security Organization, chaired by Elmer Staats, makes a very persuasive case for the kind of delegations Social Security needs.

Even though Social Security has been part of a larger organization since the formation of the Federal Security Agency in 1939, until the mid-1970's, Social Security did operate under strong delegations on both substance and administration. But in the last 10 years, more and more clearances are being required before action can be taken. Decisionmaking is being second guessed by staff people in the Department, in OMB, and elsewhere in the Government, with the consequent deterioration in the responsiveness and quality of administration.

What is needed are full-time people running Social Security, not staff people who spend only part of their time on Social Security matters. Other levels of government have so many demands on their time that decisions are both delayed and often ill-informed. It contributes nothing to the quality of administration in Social Security to have initial decisions made by the full-time managers of the program on operating questions such as the selection of personnel, the purchase of equipment, the request for administrative funds and so on reviewed by part-time people before action can be taken, or in the case of a budget, before it can even be presented to people in the Office of Management and Budget who review it all over again. What Social Security needs is the support for continuing to build a solid career staff that would come from a bipartisan board devoted to the concept of continuity and nonpolitical, bipartisan administration of quality service.

It is perhaps also of some interest that several former Government officials who have had experience with the operation of the Social Security Program endorse the idea of an independent agency. In addition to myself, these people include: Wilbur J. Cohen who had a long experience both in the Social Security organization itself and in the Department of Health, Education, and Welfare, including serving as Secretary in the Johnson administration; Arthur S. Flemming, the Secretary of Health, Education, and Welfare in the Eisenhower administration; Rufus Miles, career Assistant Secretary for administrations in both Democratic and Republican administrations; Charles Schottland, Commissioner of Social Security in the Eisenhower administration; William J. Driver, Commissioner of Social Security in the Carter administration; Nelson Cruikshank, Special Assistant to the President for Aging in the Carter administration; and William Bechill, Commissioner on Aging in the Johnson administration.

SOCIAL SECURITY AND THE UNIFIED BUDGET

Until the fiscal year 1969 budget, the financial transactions of the Social Security system were kept entirely separate from general revenue income and expenditures, except for purposes of economic analysis. Today they are part of the unified budget, which lumps together general revenue income and expenditures and the separately financed Social Security System. In recognition of the fact that this is leading to confusion, Congress decided in the 1983 Amendments to the Social Security Act to return to the earlier accounting practices. This change followed the majority recommendation of the President's National Commission on Social Security Reform and was done to protect social security's long-term commitments by making the separateness of social security financing unmistakably clear. On this point, the Report of the National Commission said, in part, "The National Commission believes that changes in the Social Security Program should be made only for programmatic reasons, and not for purposes of balancing the budget. Those (members of the Commission) who support the removal of the operations of the trust funds from the budget believe that this policy of making changes only for programmatic reasons would be more likely to be carried out if the Social Security Program were not in the unified budget." This view would seem to be borne out by the present attempt to cut social security cost-of-living adjustments and to reduce administrative funds, not because of the needs of the Social Security System but in order to help balance the budget. It seems to us in SOS that what is good policy for 1993 and after is good policy now. It is doubtful that we would be discussing Social Security cuts in the context of deficit reduction if it were not for the inclusion of Social Security in the unified budget.

The purpose of the annual budget is to make choices among expenditures, giving preference in the budget period to one expenditure over another, and also to determine who pays what and how much for the expenditures. Social Security promises—stretching into the distant future, resting on past earnings and contributions, and with separate financing—are not a proper part of this essentially competitive process. The obligations of Social Security are the product of an ageement to furnish certain protection in return for certain contributions. Workers and their employers pay into the program with the expectation of later benefits, with the Government acting as the administrator and financial trustee of the system.

People are paying today for benefits which may not come due for 40 years or more. They need to have confidence that these payments will be made. The contributors can hardly be expected to retain confidence in Social Security if there is debate about the level of benefits, elegibility requirements and future commitments all under the pressure of the competitive annual budget process. Of course changes have been made in Social Security in the past and should and will be in the future, but they will need to be made with great care, with long lead time, and with due regard for the commitments that have been made to contributing workers and their employers. The annual budget is not the place to consider Social Security changes. They should be considered on their merits by the substantive committees charged with the management of long-term Social Security obligations.

Part of the doubt that younger people have about their own protection under Social Security arises because of the way the financing is handled. People hear the President and some of their representatives in Congress propose Social Security modifications in order to help meet year-by-year budget goals. This is bound to erode the concept of earned rights and faith in the Social Security compact between Government and contributors.

Today Social Security is adequately financed in both the short and the long term. This has been the unanimous conclusion of the trustees of the Social Security funds in the three reports issued since the 1983 Amendments. The latest estimates for the old-age, survivors and disability insurance fund under the more pessimistic of the central set of assumptions used by the boards of trustees (II-B) shows the funds growing by nearly $150 billion over the next 5 years ($200 billion if Medicare is included) (and nearly $450 billion through 1994 ($500 billion with Medicare). Over the whole 75 years for which the estimates are made, the system is found to be in close actuarial balance, that it, less than plus or minus 5 percent of exact balance, using II-B, the preferred estimate, very considerably over financed under the two optimistic sets of assumptions used and adequately financed for the next 35 years under the most pessimistic of all the sets used. Yet, is spite of the fact that Social Security is adequately financed, as long as the program remains in the unified budget, there will be a temptation to cut benefits to make the overall deficit appear smaller.

If such cuts are made, the result is that trust fund surpluses are built up even more rapidly than just described, with the money being lent to the government at interest. This may have a beneficial effect on government financing in that a larger part of the deficit can be met without going into the private markets, but it does not reduce the overall debt of the United States; rather it changes the ownership of that debt, in part, from private owners to the social security funds. If the cuts are substantial and have a long-range effect, logic would require cutting back on the social security contribution rates, thus reducing unneeded surpluses in the social security funds and eliminating even the appearance of overall deficit reduction. Although money saved in social security is lent to the government at reasonable interest, by law social security funds cannot be spent for any other purpose than paying social security benefits and administrative costs.

Separate budgeting for Social Security is more than an accounting question. It can affect perceptions and thus policy decisions. Of course, for purposes of economic analysis, all government financial transactions need to be considered as a whole, and this was done prior to the inclusion of Social Security in the unified budget and would be again if Social Security were immediately taken out. The issue is not economic analysis but policy decisions about Government expenditures and income in the general revenue portion of the budget and their relationship to the benefits and the dedicated sources of income supporting our National Social Insurance Program.

Inclusion of Social Security transactions in the unified budget not only increases the likelihood that policy decisions affecting Social Security will be made for reasons that have no bearing on what is desirable Social Security policy or the adequacy of Social Security financing, but it leads to a distortion of the decisionmaking process in other programs. Excesses of income over outgo in Social Security operations may result in larger general revenue expenditures than Congress would be willing to make in the absence of including Social Security surpluses in the general budget. Even though Social Security income is legally reserved for Social Security expenditures, as long as it is treated in the budget the same as general revenue income, it looks like available money and distorts the decisionmaking process in both Social Security and the programs supported by general revenues. For example, by leaving Social Security in the unified budget, one could mask a very large defense buildup.

CONCLUSION

Just about every American has a major stake in protecting the long-term commitments of the Social Security program from fluctuations in politics and policy. The administration of Social Security by a separate, bipartisan board, and the separation of Social Security financial transactions from other Government income and expenditures would strengthen public confidence in the security and long-run commitments of the program and in the freedom of the administrative operations from short-run political influence. It would give emphasis to the fact that in this program the Government is acting as trustee for those who have built up rights under the system.

Mr. DONNELLY. Thank you. Thank you, Bob, for your excellent testimony.

Some people have argued that a board is too cumbersome a mechanism for administrating such a large agency as SSA. Boards tend to be dominated by their chairmen, and they often get bogged down between arguments of different board members.

Why do you think a board would be a better approach than a single administrator?

Mr. BALL. Because I think there is more at stake than efficient administration. I think the board arrangement with the board selecting a single administrator—and I don't care whether he is called Commissioner as in the bill or called Executive Director—who was a professional administrator would be efficient, but there is more to it.

The main reason I want a board, the reason I think it is important and why SOS thinks it is important, is a question of confidence in the total program, both in its policy recommendations, in its continuity and in the actual administration. This is a policy board, and to have on it on a rotating basis two members from one political party and one from the other is part—and it is not necessarily even the most important part—but it is part of the very necessary attempt to build back confidence in the system. People will see that with both parties represented and the administration under professional management, that the program will be somewhat insulated from short-term political considerations.

Mr. DONNELLY. You said in your prepared testimony that the current problems with the disability program would have never happened if SSA was an independent agency.

How would an independent SSA have avoided these problems?

Mr. BALL. I should not have said that in terms of an independent agency, Mr. Chairman, but I think a bipartisan board would have avoided the problem.

What happened in that disability debacle was that decisions were made for budgetary reasons to get people off the disability rolls fast. The Congress had required a review of the rolls, but it was not even to start for several months later than the administration decided to start moving. They dumped on small State agencies hundreds of thousands of cases under circumstances where they could not possibly have done a good job. They pushed hard in the direction of removal of people in short periods of time, throwing the burden on the individual to appeal in order to get back on.

I just think a person of the other political party on a board facing policy decisions like that would not have gone along. I think it would have been made a public matter early. As it was, this thing developed without anybody really understanding what was happening until many months down the road.

Mr. DONNELLY. Bob, you served as Commissioner under Presidents Kennedy, Johnson and Nixon. When you testified before Congress during those years, did you have to clear your testimony on each and every occasion with the White House?

Mr. BALL. No. Certainly not each and every occasion. In testifying on legislative proposals and on major policy issues, I think for all the time I was there and probably before that there has been a policy of clearing the substance of testimony. Usually it has been delegated to the Bureau of the Budget acting on behalf of the President, and whether it actually—actually, Mr. Chairman, I am struggling a little to remember whether it was the actual wording of the testimony that had to be cleared. I think that may have changed from time to time, but certainly the policy positions had to be in accordance with the position of the President. And even when we made reports on bills, they had to be cleared and say this was in accord with the position of the President. I do not make a big difference on that. I think that even with a board as provided in H.R. 825 you would want to keep charge or control of legislative recommendations, budget and so on, in the office of the President and in OMB. I am not thinking, and SOS is not thinking, of the kind of independence that the Post Office has as a separate corporation. I believe that the independence that is needed here is considerably short of a public corporation.

Mr. DONNELLY. Bob, Mr. Archer had a question that he would have liked to ask you, but he had to leave for another meeting. I will ask it in his place for the record.

This bill differs from the draft bill presented by the congressional panel on Social Security organization in one important respect: The responsibility and the authority of the board and the chief executive officer. The panel's bill provided for a nine-member part-time advisory board and a strong chief executive. H.R. 825 provides for a three-member Social Security board which would govern the agency and a chief operating officer.

Based on your experience, assuming we enact some legislation, which version would you prefer?

Mr. BALL. I would much prefer the H.R. 825 version for the reason's already expressed. It is to me the very important issue of the confidence of the country in the system. I believe that confidence would be greatly helped by having the system governed on a bipartisan basis with full-time board members, of which two would be of one political party and one of the other. And I believe you can get administrative efficiency by their selecting a top manager to head the actual operation. But the policy board would be of a bipartisan sort. I think that is what we need to contribute to the restoration of confidence.

Mr. **Donnelly**. Thank you.

Mr. Chairman.

Chairman **Jones**. Thank you very much, Mr. Donnelly, for taking the chair

I want to apologize to you and the other witnesses. When we scheduled this hearing, I had no idea we were going to be deleting Nicaraguan aid on the floor, nor did I know at that time that I would be deeply involved in that issue, but that has taken me away from this particular issue. I am glad to be back.

I want to thank you for your testimony. I do not have any questions at this time, but I value your judgment very much.

Mr. **Ball**. Thank you, Mr. Chairman.

Chairman **Jones**. Thank you, Bob.

Our next witness is Robert J. Myers, former Chief Actuary and Deputy Commissioner, Social Security Administration.

STATEMENT OF ROBERT J. MYERS, FORMER CHIEF ACTUARY AND DEPUTY COMMISSIONER, SOCIAL SECURITY ADMINISTRATION

Chairman **Jones**. Good to see you, Mr. Myers. Your entire statement will be in the record, and you can proceed as you wish.

Mr. **Myers**. Thank you, Mr. Chairman.

I will very greatly summarize my remarks.

First, as to Social Security being in the unified budget, I think that all operations, including both parts of Medicare, should be outside of the unified budget, as soon as is feasible.

In saying this, I have in mind the fact that Social Security has had, over the past five decades, a balanced budget. Therefore, I believe very strongly that any changes in the Social Security and Medicare programs should be made for program reasons only, and not to balance the budget.

In this connection, we currently have two instances where I believe that actions are being proposed for budgetary reasons, not programmatic ones.

One is the proposals currently being made to reduce or even eliminate the COLA. There are adequate funds to finance the COLA's, and I do not think that they should be eliminated, or adjusted downward, solely for budgetary reasons.

I do not believe that the COLA is necessarily sacrosanct. If the system has financing problems, as it did in 1983, then reduction or elimination of the COLA's is an appropriate step.

The other instance currently is the proposed reduction in the number of Social Security Administration personnel. I think that the services now being rendered to beneficiaries are not nearly as good as they might be, and I think that this is because of the budgetary restrictions. To have even further reductions is not appropriate in a social insurance system, where the participants are paying for the costs of both the benefits and the administrative expenses, and where the funds are available to do it.

Certainly, if banks and insurance companies were to operate with their clients in the way that the Social Security Administration does, I think that many of them would go out of business.

The difficulties that I see are the long waiting lines in Social Security offices, which in turn discourages people from coming there to get information. This is in addition to the fact that to reach the 800 telephone number is a virtual impossibility. Also, there are great difficulties in understanding the letters that are sent out about Social Security and Medicare.

Social Security is a self-contained, self-supporting system. I see no more reason to include it in the unified budget than to do so for the operation of all insurance companies and pension plans, which are also subject to Government control. All of these systems do affect the national economy, and those who are doing the economic planning can well add the figures together if they want to consider the overall effects.

Finally, as to the Social Security Administration being an independent agency, I strongly support this concept. I particularly like the idea of a board with bipartisan participation, and without so many layers of bureaucracy between the agency and the President.

I do not go so far as to believe that the agency should be completely independent of the President. I think that it should be under the President's control.

I would particularly wish to include in any independent agency the operations of the Medicare Program, and not solely the cash benefits program. I think that the entire program is a unified social insurance system, and that it should be administered by one agency, so that people can go to one place to get information.

Finally, as to H.R. 825, I support this bill. I would go further and include Medicare in the proposed independent agency. I would very much prefer H.R. 825 over the recommendations of the Congressional Panel on Social Security Organization. The final thing that I might say about the bill is that I think a better structure of the board and of the Commissioner could be developed, than what is now in the bill.

The way it now stands, there could be a board and/or a Commissioner who were named essentially by a preceding administration, and there could then be very serious political conflicts between the board and the then President.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Robert J. Myers, Former Chief Actuary and Deputy Commissioner, Social Security Administration

Mr. Chairman and Members of the Subcommittee, my name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies from 1934 to 1970, being Chief Actuary the last 23 years. In 1981-82, I was Deputy Commissioner of Social Security. Then in 1982-83, I was Executive Director of the National Commission on Social Security Reform. In 1979-81, I was a member of the National Commission on Social Security, having been appointed by the House of Representatives. I am a Fellow and a Past President of the Society of Actuaries and a Member and Past President of the American Academy of Actuaries.

SOCIAL SECURITY AND THE UNIFIED BUDGET

I believe that the operations of the entire Social Security program, including Medicare, should be completely outside of the Unified Budget, as they were before fiscal year 1968, and as they will be after fiscal year 1992, except for the Supplementary Medical Insurance program. I believe that such removal should be done as soon as possible and should be made applicable to SMI as well.

The 1979-81 National Commission on Social Security made such a recommendation. Then, in 1983, the National Commission on Social Security Reform recommended that such a change should be made as soon as possible. However, because the Budget Committees of the House of Representatives and the Senate opposed this change, a compromise was reached in connection with the 1983 Amendments. The removal was deferred until fiscal year 1993, and is to be effective only for OASDI and the Hospital Insurance portion of Medicare.

Changes in the OASDI program should be made only for programmatic reasons, and not for reasons of the effect on the general budget. OASDI has had a balanced budget in the aggregate over its almost 50 years of existence, and hopefully will be in such a situation over the long run. The general budget deficits over the years have not been caused by OASDI, which should not be required to aid in its solution.

I see no more reason to include the operations of the governmentally-administered, but self-contained financed, OASDI system in the Unified Budget than to do so for the private pension and life insurance systems of the United States. In either case, the budget and economic planners could, if they seek to examine overall effects, quite easily add these operations to the general-budget data.

Several times in the past, changes in the OASDI program have been made primarily for budgetary purposes that were not necessary, or possibly even desirable, insofar as the program was concerned. For example, in 1981, the rounding rules for benefit amounts were changed so that, at each step in the computations, the value is rounded down to an exact multiple of 10 cents (if not already one), and then the final benefit payable is rounded down to an exact multiple of $1 (if not already one). The reduction in cost to the OASDI program was relatively negligible as compared with the great financial needs which it then had, but such savings had appeal to the budget authorities. The change caused great administrative problems and expense to the Social Security Administration, and, in fact, it could not be implemented as rapidly as the law required. A reasonable and equitable rounding rule—and one that is widely practiced in the business world—would be rounding to the nearest 10 cents at all times.

OASDI benefits have been indexed for changes in the CPI since 1975 and will continue to be, except possibly when the trust-fund balance is unduly low. I do not believe that such indexing should necessarily be done under all circumstances. If a financing problem occurs thereby, then indexing should be lessened, or even temporarily suspended. I do not agree with those who currently suggest lowering the COLA for December 1985, and possibly later years, solely to reduce the general-budget deficit. The recent experience of the OASDI Trust Funds has been favorable—significantly more so than was estimated in 1983—and they have sufficient resources to finance this COLA.

Another current development involving the OASDI program and the Unified Budget is the proposed reduction in the number of employees of the Social Security Administration and the concomitant closing of a number of district offices. I am all in favor of efficiency and reducing personnel when redundancy occurs, if at the same time first-class service can be provided. However, from my observations, although the operating performance of SSA has improved, there is a long way to go before covered workers and beneficiaries receive prompt, thorough, first-class service at the district offices. Waiting time are too long, so that many are discouraged from seeking help. The 800 telephone numbers are difficult to reach. The staff are not adequately trained in the complexities of the program before they are put to work with the public.

The administrative expenses of the OASDI program are very low—only 1.3 percent of benefit outgo. they well could be somewhat higher, so as to provide adequate, or even excellent, service to the public. After all, OASDI is a social insurance program, for which the contributors are paying the entire cost in a direct manner. Such top-notch service can be afforded, and it should be provided. It should not be withheld for purposes of balancing the general budget, because the financing is available within the program to furnish such service. Certainly, successful insurance companies do not skimp on their services to policyholders, who in the end are footing the bill.

SOCIAL SECURITY ADMINISTRATION AS AN INDEPENDENT AGENCY

The proposal to make the Social Security Administration be an independent agency has some connection with the previous subject of Social Security being removed from the Unified Budget. It would be logical and desirable to take both actions at the same time. I strongly support this proposal.

In my view, such and independent agency should administer not only OASDI, but also Medicare. Together these represent a comprehensive social-benefit system, and they should be administered together. The covered workers and beneficiaries should have a single place to go for information and for filing claims. At present, the situation is particularly deplorable for Medicare beneficiaries, because there is nowhere that they can obtain person-to-person information about the program; instead, they are confronted with difficult-to-understand form letters and communications or with recourse to difficult-to-reach 800 phone numbers, and the resulting problems of comprehension when talking to a distant person.

The independent agency should be in charge of a full-time board of three members, of whom two should be members of the same political party as the then President, and the third should be of the opposite political party. In this manner, the operations of the agency would be "out in the open" from a political standpoint, but yet it would never be at odds with administration policy. It would be most unfortunate if the situation could exist such that the President and Social Security agency were at odds on policy or other issues.

H.R. 825 would establish the Social Security Administration as an independent agency to administer OASDI and Supplemental Security Income. I strongly support this bill as far as it goes, but—for the reasons indicated previously—I would also include under its jurisdiction Medicare (and also Medicaid). One of the strong features of the bill is that staffing budgets would be determined by the administrative needs, and would not be subject to arbitrary cuts by the Office of Management and Budget for general budgetary reasons.

However, I do have some problems with the proposed make-up of the Social Security Board and its top-level staff. As now contained in the bill, at times a majority of the Board members could be of the opposite political party from the President, and this could result in serious conflicts within the Administration. This could be avoided by having 4-year terms for the members, with the Chairperson (or "Chair") having a term co-terminous with that of the President, and the other two members having terms which expire 1½ and 3 years, respectively, after that of the President.

Also, I believe that it is undesirable for the chief operating officer to be designated as the Commissioner of Social Security, which implies too much authority, and for this position to have a term which is not co-terminous with that of the Chair, or even in some circumstances with that of a majority of the Board (which could lead to serious conflicts). Perhaps the title should apply to it or else a 4-year one.

Finally, I note the bill provides specifically for a General Counsel of the new agency. I suggest that the same treatment should be applied for the position of Chief Actuary.

Chairman **JONES**. I think that last point you make is a very important one. You could have a one-term President appointing two of the three members, and then another President comes in, and that board is of a different philosophy, and might play a very political game of appointing a Commissioner out of sync with the new President.

What would you do to remedy that situation? How would you suggest we handle that?

Mr. **MYERS**. As I bring out in my prepared testimony, I would do this as having the Chairman of the board have a term coterminous with the President's. The other two members of the board could have staggered terms. For the Commissioner of Social Security, I would not have a 5-year term, but rather either a term coterminous with the President, or else have it—since the individual is going to be an administrator—be, in essence, a permanent appointment, a civil-service type of appointment.

Chairman JONES. Do you think there are any other steps Congress could take to prevent partisan political use of the Social Security Program?

Mr. MYERS. I think that just having a bipartisan board, a full time board which would be working on policy, and which would always be aware of what was going on, within the agency, would be very helpful in this respect. The minority member could have his or her views publicly stated. I think that would do much toward restoring confidence in the system by keeping it operating on a really nonpartisan basis.

Chairman JONES. Are you saying, short of making it an independent agency with a bipartisan board, there is really not anything that Congress can do to keep Social Security from being a political football?

Mr. MYERS. That is correct, Mr. Chairman. I think that, for example, Mr. Stanford Ross' suggestion would still leave the situation very much as it is today, where any spokesman with regard to Social Security proposals must necessarily speak the administration line.

If there was a three-member board, and the Committee on Ways and Means held a hearing, all three members could come and speak their views. The Chairman would naturally speak for the administration, but the board member who was representative of the minority party could still come out in the open, and say exactly what he or she thought, and with full knowledge of the operations of the system.

Chairman JONES. Do you have any of the fears that I expressed earlier today, about an independent agency being independent of Congress' ability to make it act on behalf of a constituent, such as the Postal Corporation?

Mr. MYERS. I would not make it as independent as the Postal Service is. Rather I think that, with a setup within the executive branch, and really being under the jurisdiction of the President, this excessive independence would not occur. I think that, on this basis, it would work out in the best interest of both the system and the American public. It would also be valuable to the Congress, if there were this set up of a bipartisan board, where all the members would be free to speak their minds when they appear before congressional committees.

Chairman JONES. You were here at the beginning of the hearing this morning, and you heard Congressman Porter suggest a fundamental change in the deposit of the Social Security taxes, so that you would have this running, invested account for the worker building up his or her Social Security benefits.

Would you care to comment? He says this is one way to restore confidence among the younger people, confidence that the Social Security will be there when they get ready to retire.

Would you care to comment on some of his remarks, and what would you do to build confidence among younger people?

Mr. MYERS. As to the proposal that Congressman Porter made and which others have made in the past, in essence, changing the present OASDI system over to one of individual savings accounts, I would not agree that this would be desirable in the United States.

Our system now, as it has gone on for almost 50 years, has been reasonably satisfactory. If there were these individual accounts, there would be many difficulties.

One of the difficulties would be that, although this proposal would provide very large benefits for higher paid people, and for people in the system a long time, it would provide inadequate protection for lower earners, whose accounts would not have accumulated very much. Also, there would not be much in the accumulated accounts for people who die or become disabled prematurely.

Further, there is the great problem of what would be done about the existing system. Without the continuing flow of new entrants into the system, there would be the very large unfunded liabilities that would have to be met out of general revenues, which I think is undesirable.

I think that the present self-supporting system does bring across to people the fiscal responsibilities involved.

Finally, how do you restore confidence? I think that confidence is something that must be built up slowly. I would like it to be built up much more rapidly, but I think that confidence will be restored as the people see the trust funds build up to a more appropriate size. Just as confidence was destroyed very slowly, so too, I think by the natural course of events it will be restored.

But this is a slow matter. Discussions such as this, as well as the various forums that Congressmen hold with their constituents, will, I believe, restore the confidence in the system that it rightfully deserves.

Chairman JONES. Thank you, Mr. Myers.

Mr. Gregg has just returned.

Do you have any questions you would like to ask Mr. Myers?

Mr. GREGG. I have tremendous respect for Mr. Myers, and regret that I was not here to hear his whole testimony, and therefore, I will pass the opportunity to ask questions.

Chairman JONES. I thank you very much for your testimony, Mr. Myers, and I do not think I have any further questions.

Thank you.

Mr. MYERS. Thank you, Mr. Chairman.

Chairman JONES. The next witness is Mr. Kenneth Blaylock, national president of the American Federation of Government Employees.

Is he here?

STATEMENT OF JOHN GAGE, PRESIDENT, LOCAL 1923, BALTIMORE, MD, ON BEHALF OF KENNETH T. BLAYLOCK, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES (AFL-CIO), ACCOMPANIED BY JOHN HARRIS, ADMINISTRATIVE ASSISTANT TO THE NATIONAL PRESIDENT

Mr. GAGE. Mr. Chairman, I am pitchhitting for Mr. Blaylock. He was called away.

My name is John Gage. I am president of the headquarters local up in Baltimore, and this is John Harris, Mr. Blaylock's administrative aide.

Many of our points have already been made in the hearing today, so we will try to just summarize a few of them.

A few weeks ago, we were before you, as well as out in your home district, in Tulsa, to testify about the proposals originating with OMB, to close field offices of the Social Security Administration, and cut its staff by 17,000. I doubt that those hearings would have been necessary if Social Security were in fact, an independent agency, and its finances removed from the unified budget. Not that there would never be offices closed, or staff cut, but I do not believe that if Social Security were separated from the political nightmare of today's budget crisis, we would be facing proposals as radical and as dangerous as those, nor would you see the Commissioner of Social Security before you to try to justify proposals and staffing cuts that she really does not believe in.

It is hard to face the consequences of the budget crises. It is especially that way, as Federal employees, and if we were to view this strictly from a narrow interest, I suppose that we should be supporting keeping Social Security in the unified budget, and cutting its benefits.

After all, that might lessen the burden of the deficits off Federal employees. But we just do not think that is right.

Social Security was established in the first place as an independent agency, and its trust funds and taxation, and benefits were considered a separate budget. I think that is where the confidence level that you have been speaking of originated. It was both symbolic and a real expression of the trust which was placed in Social Security.

Now most of the public does not believe that Social Security is safe. Some wonder whether they might be better without it, and others fear that their benefits will be taken away from them. We have undermined their faith in Social Security, and we have pitted generation against generation, the young and the able bodied against the elderly and disabled, and the longer we permit Social Security to be a part of this debate, the worse we damage this precious institution, the social insurance of America.

We support the measures to keep Social Security separate, to establish an independent agency, and to bring it out of the unified budget. This legislation before you, H.R. 825, is the careful development of several years of study and debate.

We will submit to you separate papers which will review in detail our support for specific provisions of the legislation, and overall we think it is excellent. We urge you to take early action to adopt it.

Over the years we have been before you, and testified to a steady deterioration in the Social Security Administration. We have told you how the workers have struggled to implement SSI, how the computer systems have failed, and have become obsolete, how error rates and poor service have dogged the programs, and how troubled we have become that we cannot get the quality of service we wish to get, because we have been understaffed, and our resources inefficient.

Many of the issues that you have faced over the last 10 years are issues that originated in problems with the administration of the programs, problems which should have and could have been avoided, many of last year's disability issues, for example, are those concerning overpayments.

We support H.R. 825, because we believe that it will improve the Social Security Administration. This subcommittee can then move from the oversight of errors, and into the serious and crucial issues of the future of Social Security in America.

In closing, I want to return to my plea that we remove Social Security from the debate of the budget, and separate it, and protect it, so that faith can be restored to it. Today the impact of Social Security on the budget is very small. After benefits are paid out from the Social Security taxes that are paid in each year, there is less than $5 billion left on the balance sheet to offset the Federal deficit.

In a very short time that will not be so. By 1990 that budget deficit offset grows to more than $60 billion. Then the impact of removing Social Security from the unified budget, which is now scheduled for 1992, becomes a rupture in the budget, the wound which will badly hurt the other programs in the Government, defense, social spending, or whatever.

If we are ever going to remove it from the unified budget, we shall have to do it now, while it is of little consequence to the whole.

Again, I want to thank you for this opportunity to speak before you today.

[The prepared statement follows:]

STATEMENT OF KENNETH T. BLAYLOCK, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES (AFL-CIO)

Mr. Chairman, my name is Kenneth T. Blaylock. I am the National President of the American Federation of Government Employees (AFL-CIO) which represents 750,000 federal and D.C. government employees, 72,000 of whom work for the Social Security Administration.

I thank you for this opportunity to testify today on the question of establishing SSA as an independent agency and removing Social Security from the unified budget.

Just a few weeks ago I was here to testify about proposals to close field offices of Social Security and cut its staff by 17,000. I doubt that that hearing would have been necessary if Social Security were in fact an independent agency and its financing removed from the unified budget. Not that there would never be offices closed or staff cut, but I don't believe that if Social Security were separated from the political nightmare of today's budget crisis that we would be facing proposals as radical and dangerous as these. Changes to the Social Security Administration, if changes are needed, ought to be based on our intent to serve the public as well as we can and we believe an independent agency can ensure that.

I wonder too if we would be debating whether the cost-of-living adjustments for Social Security should be cut, if Social Security were removed from the unified budget and the politics of this moment. I for one don't think that the COLA question belongs in this debate. It is financed outside of general revenues, supported and assumed by Social Security taxation and benefits far into the next century. I need not remind this Subcommittee how difficult and controversial the debate was just two years ago to reach an agreement on the Social Security funding. Why do we return to it?

It is hard, I know, to face the consequences of our budget crisis. It is especially hard upon federal employees as you and I well know, and, if I were to view this strictly from a narrow interest, I suppose I should support keeping Social Security in the unified budget and cutting its benefits. After all, that would keep the burden of the deficits off of my people. But I don't think that's right.

Social Security was established in the first place as an independent agency and its trust funds and taxation and benefits were considered a separate budget. This was done so that the American people would believe that the benefits which they earned through their labor were protected, vouchsafed from misadventure of economics or politics. It was both symbolic and real expression to the trust which we have put in Social Security. I shall not recount how and why these institutions changed (you know these as well as I). In short, we succumbed to the "misadventure" of economics and politics.

Now most of the public does not believe their Social Security is safe. Some wonder whether they might be better without it, if they are young and have need to spend their money on other things. Others fear their benefits will be taken from them, if they are among those who depend upon them, and out of that fear some even offer to have those benefits cut or lose their cost-of-living adjustments. We have undermined their faith in Social Security and we have pit generation against generation, the young and able-bodied against the elderly and disabled. And the longer that we permit Social Security to be a part of this terrible debate, the worse we damage this precious institution, this social insurance of America.

That is why we support these measures to keep Social Security separate, to establish an independent agency and to bring it out of the unified budget.

I want to take this opportunity to express our union's endorsement for H.R. 825 to establish independent Social Security Administration. This legislation is the careful development of several years of study and debate, originating in the work of the first National Commission of Social Security and culminating in the study of the Congressional Panel on Social Security Organization which reported to this Subcommittee last year. In separate papers which we will soon submit to the Subcommittee we shall review and detail our support for the specific provisions of the legislation. Overall we think it excellent and we urge you to take early action to adopt it.

We have been coming before this Subcommittee for over two decades and several Presidencies. Over those years we have witnessed and we have testified to a steady deterioration in the Social Security Administration. We have told you how the workers struggled to implement SSI, how the computer systems have failed and become obsolete, how error rates and poor service have dogged the programs, how troubled we have become that we cannot give the quality of service we wish to give because we have been understaffed and our resources insufficient.

Many, maybe most, of the issues that you have faced over the last ten years are issues which originated in problems with the administration of the programs, problems which should have and could have been avoided—many of last year's disability issues, for example, or those concerning overpayments. We support H.R. 825 because we believe that it will improve the Social Security administration. This Subcommittee can then move from the oversight of errors and into the serious and crucial issues of the future of social insurance in America.

In closing I want to return to my plea that we remove Social Security from the debate on the budget, and separate and protect it so that faith can be restored in it. Today the impact of Social Security on the budget is very small; after benefits are paid out from the Social Security taxes that are paid in each year, there is less than $5 billion left on the balance sheet to offset the federal deficit. In a very short time that won't be so. By 1990 that budget deficit offset grows to more than $60 billion. Then the impact of removing Social Security from the unified budget (which is now scheduled for 1992) becomes a rupture in the budget, a wound which will badly hurt the other programs in the government—defense, social spending, or whatever. If we are ever going to remove it from the unified budget, we shall have to do it now while it is of little consequence to the whole.

Again, I want to thank you for this opportunity to speak today and urge you to act quickly on these timely issues.

Chairman **Jones**. Thank you very much for giving the statement of your organization. I want to thank you and the other members of your organization who have testified in our last two hearings.

I would just like to ask one question, which is not on the two topics relevant to today's hearing, but one you brought up in your statement.

In the field hearing, the representative of AARP suggested that perhaps there could be some staff reductions, but that they should follow the installation of a new computer operations system, and that you could perhaps centralize records by States so you do not have to have the clerical help in all of these field offices, and that you leave essentially the frontline people who are the person-to-person contact with the beneficiaries.

Has your organization given that any thought? Would it be possible to centralize the records areas so you could possibly reduce the work force without impairing the quality?

Mr. GAGE. Well, first of all, the records are pretty much centralized, and the computerization will reduce the work force. The question is the degree. If the computerization would go along without the political debate attached to it, we would probably lose about 5,000 employees. However, that number, as you know, has been escalated to the 17,000 number which we think is artificial and not as a result of the modernization nor will the modernization be able to justify that type of loss.

But as far as the centralization of records, I do not know if you are ever going to have a CR, a claims rep, in a district office to be able to do all their clerical and all the support functions that go along with their basic authorization duties. So, I think while we have some centralization of records, even more of a centralization of records, I still do not think that will remove all the clerical support necessary for a district office.

Chairman JONES. Mr. Gregg.

Mr. GREGG. I have no questions.

Chairman JONES. Thank you very much for your testimony.

Mr. William Hutton had to leave, and we are going to have all of his testimony included in the record without objection.

[The statement follows:]

STATEMENT OF WILLIAM R. HUTTON, EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. Chairman, members of the Committee, I am William R. Hutton, Executive Director of the National Council of Senior Citizens. The National Council represents over 4.5 milion elderly persons in all 50 states. On their behalf, and on behalf of all Social Security beneficiaries and contributors, the National Council is here today to testify in support of H.R. 825, which would make Social Security a separate agency, and to urge the removal of Social Security from the unified budget. We believe that both these actions are necessary to strengthen the Social Security system and to help ensure its long-term commitments. Moreover, there is no doubt in my mind that were Social Security to be moved outside the unified budget and the Social Security Administration was given its independence, all the talk about cutting or modifying the Social Security COLAs would disappear—as well it should.

H.R. 825

The National Council of Senior Citizens believes that establishing an independent Social Security agency, administered by a bipartisan board, will have positive results: greater efficiency in administering Social Security programs; increased public confidence in Social Security; and reduced political pressures on the program.

Our organization has received numerous letters and inquiries from our members and the public at large, asking for help and advice about problems with their Social Security benefits. They may have failed to receive these benefits or had them reduced or been told that they had to pay them back. Often, because of internal difficulties at the Social Security Administration, these people cannot get the help they need, with the result being that they may not receive the benefits to which they are entitled. We do our best to help these people, but we believe it is the role of the agency which administers Social Security to assist beneficiaries and contributors more efficiently.

We feel that the creation of an independent agency to administer Social Security and to manage the 84,000 employees now working for the Social Security Administration would resolve many of the internal management problems currently facing SSA and would help guarantee that the Social Security system is managed in the most non-political and efficient manner possible. Experience shows that an organization not in control of its programs, its resources, its budget and its policy cannot be run efficiently. SSA currently does not have adequate independence and is unable to resolve operating and management problems. Naturally, it is the beneficiaries who suffer consequenes of this inefficiency.

We believe that, along with increased efficiency, the creation of an independent agency would provide the Social Security system with more stable and continuous administration and leadership. This independence and continuity would in turn add to the public confidence in the system. Treating Social Security like any other government program within the Department of Health and Human Services limits public understanding and support for it; it is just viewed as part of the monolithic Federal bureaucracy. Creating a separate agency would help reinforce to the public that Social Security is a self-contained, self-financed system, and is not just like any other government program. This agency's existence would be visible proof that Social Security is an ongoing insurance and retirement program, one that will continue for years to come, and is not just another domestic program to be reduced or expanded at the whims of the government.

Finally, creation of a separate agency with a bipartisan board would help ensure that Social Security is removed from the political arena and will not suffer due to changes in presidential administrations. Social Security would be insulated from sudden policy shifts. Fluctuations in politics and policy undermine both the program and the public's confidence in it. Freeing administrative operations from short-term political influences will strengthen the long-term commitments of the program.

The difficulty the Social Security Administration has in trying to run itself efficiently is evidenced by the current Federal budget proposal to close SSA field offices and cut staffing. This plan was not developed by individuals within SSA, but rather by OMB, which apparently has no familiarity with the operation or management of SSA and apparently made no effort to study the consequences of such actions. Yet, the impact of these changes will be terrible—SSA will become even more inefficient as employees become further overburdened; beneficiaries will find it even more difficult to get assistance. SSA was not a party to formulating this proposal but will have to deal with its consequences. Making SSA a separate agency will, in the future, prevent this sort of problems.

REMOVING SOCIAL SECURITY FROM THE UNIFIED BUDGET

Spending for Social Security is not financed through general revenues as are all other government programs. Social Security funds are self-financed through worker and employer contributions to the various Social Security trust funds. Except for a portion of Medicare Part B payments, no money for Social Security benefits comes from general revenues; the various Social Security programs operate on a self-sustaining basis. Moreover, by law, Social Security funds can only be used to pay Social Security benefits and administrative costs; they cannot be used for any other programs.

A widespread misunderstanding of the independent nature of these funds has emerged since 1969 when the concept of a single, "unified" budget was first introduced. Prior to this, Social Security trust funds were accounted for separately and were clearly distinct from general revenue income and expenditures. Any changes in benefits were made based on the objectives of the program. Now, although the separate trust funds still exist, they are accounted for in a single Federal budget, along with general revenue income and expenditures. This has obscured the exclusive nature of the trust funds and created the illusion that Social Security expenditures are no different than other government expenditures. It has also meant that Social Security becomes the main target for deficit reduction efforts.

While the goal of easing of Federal accounting procedures may have been achieved with the unified budget, the unfortunate outcome has been the mistaken impression that any savings in Social Security reduces the Federal deficit. Perhaps this is the case on paper; but the reality is otherwise. Spending on Social Security is not a source of deficits in the Federal budget. Income and outgo for Social Security are separate and distinct from income and outgo of other government programs. Yet Social Security has become a target as the President and the Congress search for ways to reduce the deficit. Budget proposals to reduce the deficit by changing the COLA are totally inappropriate and misplaced—tampering with the COLA will merely give the illusion of a more nearly balanced budget and will not in reality decrease the budget deficit. Reducing the COLA will, however, have two outcomes: a significant increase in poverty among the elderly; and an unjustifiable growth in the Social Security trust funds.

In order to safeguard the Social Security system and ensure that it is not manipulated for political purposes, Social Security should be removed from the unified budget. Transactions in the Social Security program should be kept separate and distinct from other government transactions. As states on the Report of the 1971 Advisory Council on Social Security, issued shortly after implementation of the unified budget:

> Even though the operations of the Social Security trust funds are combined with the general operations of the Federal government in the unified Federal budget, policy decisions affecting the Social Security program should be based on the objectives of the program rather than on any effect that such decisions might have on the Federal budget. The operations of Social Security should continue to be identified as such and separated from the general operations of the government.

Under the terms of the 1983 Social Security compromise, Social Security will be removed from the unified budget in FY 1993. We understand that legislation has been introduced in both the House and the Senate which would move up this date. We hope that this legislation will receive prompt attention so that changes in Social Security programs will no longer be made on the basis of budgetary considerations.

Thank you.

Chairman JONES. Now I would like to turn to our colleague, Congresswoman Oakar, who is here. We will have your testimony included in its entirety, Mary Rose, and look forward to hearing from you.

STATEMENT OF HON. MARY ROSE OAKAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. OAKAR. Mr. Chairman, thank you and members of this distinguished committee. I apologize for not being here at the opening when I was scheduled, but I serve on a committee called House Administration. We just concluded our meeting.

Mr. Chairman, first of all, let me say publicly that I have the greatest respect for you personally. You have made some very difficult choices as budget chair, former budget chair, and you were always extraordinarily openminded, even to opinions that may not have been in concert with your own. I just wanted you to know personally how I feel about that and the spirit of openmindedness and fairness that you always exerted as budget chairman. I know that in your capacity as chair of this very important subcommittee that you and members of the committee will exert the same kind of fairness. I just wanted to say that for the record.

Mr. Chairman, I would like to submit my entire statement for the record and just make two quick points.

First of all, it was very interesting to me that the National Commission on Social Security, a bipartisan group, made two recommendations that by and large were not adopted in the Social Security amendments. One related to removing the Social Security trust fund from the unified budget. There is a provision, as we all know, to remove it in 1992, but the Commission, it is my understanding, recommended that it be done as part of the legislation passed some months ago.

I think this is so important if Social Security is ever to retain and resume the public confidence that we all want it to have It is a great, great program. It was added to and progressed, I think, during the Johnson administration, which you were a partner in that administration. I have such great respect and confidence for Social Security as a program.

One of the ways to depoliticize it is to really and truly remove it from the budget. It ought to rest alone. And if it cannot rest alone, then we can take a look at the trust fund and make the necessary changes. I think the disabled and the elderly would accept that.

But when they know now, for example, that there is going to be a surplus in the trust fund and that, and they know that there is not a real good reason to limit their COLA, or whatever recommendations there are, both Republican and Democrat, that is when the public, I think, starts to begin to feel that, indeed, this is just a political football that can easily be manipulated depending on what items in the budget are important.

So I think that is one thing that we really have to do. As you may know, I have a bill to remove the trust funds from the general budget, and I do really believe that that ought to be done with haste.

Of course, the second recommendation or another recommendation by the National Commission was to set up the Social Security Administration as an independent agency. It deserves that, Mr. Chairman. I think that would truly show, once again, that we want to depoliticize the whole notion of Social Security, have it stand on its own merits and operate independently. It is the second largest item in the budget. It surely demands that kind of perusal, and I am hoping, Mr. Chairman, by the fact that you have signaled early hearings on this issue, that with all the testimony that I know you are going to get, you have a speedy writeup of what I think is doable and would not involve, to my knowledge, any cost.

I want to thank the chairman for hearing me, and I want to thank my distinguished colleague, Congressman Gregg, as well for being here.

[The prepared statement follows:]

STATEMENT OF HON. MARY ROSE OAKAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman and Members of the Subcommittee, it is a pleasure to testify before your Subcommittee today. I am delighted with your enthusiasm, Mr. Chairman, regarding Social Security legislation and am certain that you will carry on the fine tradition established by your predecessor.

As you know, 1985 is the golden anniversary for the Social Security program. When President Franklin D. Roosevelt signed the Social Security Act into law, he and his advisors had a definite goal in mind—to provide "some measure of protection against poverty ridden old age." Fifty years ago, this program was a godsend, as the United States pulled itself out of the Great Depression.

Today, Social Security continues to assist thousands of retirees, disabled workers, and dependents. But, to many younger workers, Social Security is only a deduction from their pay checks. Most young workers do not believe Social Security will be around when they will qualify for benefits. To me, this lack of confidence in our commitment to maintain the Social Security System is alarming. There is no reason why every American should not have total confidence in the Social Security System today and decades from today. I am hopeful that your Subcommittee's consideration of H.R. 825, of which I am a cosponsor, and the notion that the Social Security trust funds should be removed from the unified budget will prompt a restored trust.

The best way to restore public confidence in the Social Security System is to depoliticize it. Depoliticization can be achieved in two ways, both of which were recommended by the National Commission on Social Security and were the only two recommendations Congress rejected. First, the Social Security trust funds need to be taken out of the unified budget. My bill, H.R. 161 removes the OASDI and HI trust funds from the general budget upon enactment, which is similar to a recommendation adopted by the National Commission on Social Security in 1982. I realize that the Social Security Amendments of 1983 mandate that in 1992 the Social Security trust funds will be taken out of the budget operations, but, Mr. Chairman, 1992 is not soon enough.

The most recent threat of capping Social Security COLAs is one compelling reason for removing Social Security from the unified budget. Analyses from the Center on Budget and Policy Priorities, the Congressional Budget Office, and the

American Association of Retired Persons confirm the devastating impact of this proposal. The proposal released by the President and Senate Republicans could result in an average loss in benefits of $300 annually and $1,257 over the next five years. Undisputably, this would force more older Americans to live at or below the poverty level.

The motives behind this scheme to reduce Federal spending vis-a-vis reducing the COLA are completely misguided. Social Security is not adding to the deficit. In fact, Social Security will show a surplus of $5.3 billion by the end of 1985. Furthermore, for every dollar Social Security takes in, it makes 3.4 cents. Conversely, for each dollar the Federal Government receives, it loses 43 cents. And, Social Security monies can not be used to retire another debt. How, then, would reducing Social Security spending reduce the Federal deficit?

As you know, it really would not. Reducing Social Security outlays, just like including the trust funds in the unified budget, have no more than a cosmetic effect on the Federal budget. Its surpluses can make the Federal budget look better, and its outlays can overshadow other increasingly expensive programs. Most importantly, FDR and the framers of the Social Security System intended those funds to be self-contained.

The second change that will restore confidence in the Social Security System would be to enact H.R. 825. The Social Security Administration should be an independent agency, removed from political appointments and Administration demands. The manner in which appointments are made to the Board and terms staggered would ensure that the Social Security agency operates independent of partisan philosophies. The use of an ombudsman would also ensure that the recipients' interest were represented.

In closing, I would like to reemphasize the need for us to move toward depoliticizing Social Security—the agency and the programs. Each time I return to my district, retirees and those workers nearing retirement stop me and ask about what will happen to their benefits. Quite frankly, they are scared. Many of my constituents are lower income senior citizens who depend largely, if not solely, on Social Security monthly checks to keep themselves and their families alive. Each time they read in the paper, or hear on the news that "Washington" is trying to lessen their Social Security benefits, their fear increases. We need to allay those fears now and forever.

Mr. Chairman, thank you again for letting me testify today. You can be assured of my full support in removing the Social Security trust funds from the unified budget and in making the Social Security Administration an independent agency.

Chairman JONES. Thank you very much, Mary Rose, for the kind words and your testimony, and the leadership that you have consistently given to all the programs affecting retired Americans.

Let me ask you a tough question. I was in a discussion the other day on this subject, and it centered around whether or not COLA's should be restricted this year as part of an overall across-the-board package. One of the participants in the discussion said that there should be a restriction on the COLA's and the money should be plowed back in the trust fund and provide security for a few more years into the next century when the demographics change. Another participant said there should not be, that the surpluses are building up so rapidly. And the third participant said that because the surpluses are building up so rapidly, rather than expanding the benefit structure and creating an incentive to increase the benefit structure, the real pinch is on the working folks now as opposed to the retired population. Therefore, you should limit the benefit structure and cut the taxes that go into it, so the surpluses do not build up so fast.

What would you respond to that last comment?

Ms. OAKAR. Mr. Chairman, at this point in time, I would not be in favor of changing the tax structure even though to an extent it has become more burdensome toward the employer and the employee since I have been in Congress anyway.

However, when you compare the manner in which we tax Social Security and the manner in which Canada and England and other progressive countries tax their people for income security, I think you will find that we compare most favorably and, in fact, we are still kind of a bargain in our manner of giving income security to our older Americans.

As you know, Mr. Chairman, for example, in Scandinavian countries every person is born with having, whether they work or not, an income security when they reach a certain age. And, of course, in addition, they qualify for the kind of structure we call Social Security. So, at this point, I would not be in favor of changing the formula unless no one would be penalized. If we really could show that, indeed, there is enough money in the trust fund in the future to have this enormous surplus, then maybe we ought to not look at reducing benefits but possibly changing the tax structure. That certainly is a tax for people, and I know that some feel it is rather high these days; but, I would not be so hasty as to do that until we were sure we had enough money in the trust fund.

You know, Mr. Chairman, it is not a myth. If you reduce that COLA, more organizations than one have stated that half a million additional people are going to be below the poverty line, and those older Americans who are not below the poverty line are borderline poverty. We have to take a look at whether it really is a lot of money to live on. I hear people saying that a lot of these elderly have $10,000 pensions. Well, so what? That is not a lot of money to live on annually when their health expenses increase so dramatically and their housing needs are greater and catastrophic problems can come up. But I certainly would be willing to take a look at the latter as opposed to the other options that you mentioned.

Chairman JONES. Thank you very much.

Mr. Gregg.

Mr. GREGG. On the issue that the chairman has raised, how do we address $5 trillion of unfunded liability we have right now for people who are in the post-World War II baby boom generation?

Ms. OAKAR. You know, that issue comes up with respect to Federal pensions as well. It is my understanding that when you talk in terms of unfunded liability, you are really talking in terms of, viewing that as if no one else in the future is going to contribute, and that is just not the case. I do not believe that.

With all due respect to the question, I really and truly believe that that is sort of a misnomer that flows around as an issue. But we are not taking into consideration the future payments and so forth. I think a better way of trying to project is to take a look at what we might hope the unemployment rate would be as a goal; and if we get more people contributing to the system, of course, the healthier the program is because it is indeed based on no other contributions but employer contributions and employee contributions.

Mr. GREGG. Well, I would just suggest to you for the persons going into the work force today, who are 18 years old and looking at getting 72 cents back on every dollar they put in, about which we had some testimony we had today on actuarial projections, it is pretty serious. I mean that person is looking at more than just a theoretical loss in savings. He or she is looking at a substantive loss in savings, and it does seem to me that we have got to come up with some way to make sure this fund does accumulate the type of excess necessary to have a reasonable return for people who are paying the taxes at the very high rates, or we should reduce those taxes.

Ms. OAKAR. Congressman, I would like to see the taxes reduced if it were possible, but let me just say one quick thing. One of the things that we forget sometimes is that Social Security insures you for something predictable. If you reach 62 years of age or 65, or you are 60 and a widow, you can be guaranteed a certain amount of money. But it also insures you for something you hope never happens to you. You hope you never become disabled. But if you are paying into that system, not your spouse in this case usually, but if you are paying into that system, you can be covered by a disability program. That is one of the progresses we have made in Social Security. That is the kind of argument I think young people ought to listen to, because sometimes we do not think about what might happen to us in the future. We know that many people who would otherwise not be insured are legitimately covered by disability because of the benefit and the fineness and the fine tuning over the years of that program. I hope that when the actuary gave you those figures—and I cannot verify them for accuracy, but I will try to, in the future—that they also counted in that question mark, whether or not something might happen to an individual that they hope never happens to them, that they become disabled.

Chairman JONES. I would like to ask Congressman Gregg—that 72 cents on the dollar that is all an 18-year-old can expect to get back on Social Security—that matter was raised earlier in the hearing; I cannot remember if it was raised by somebody from the subcommittee or one of the witnesses.

Do you know whose study that is?

Mr. GREGG. It was Congressman Porter's, one of the figures he used.

Chairman JONES. I asked the staff if they had heard of any study of that nature and they had not.

Mr. GREGG. Seventy-two cents for a male and 91 cents for a female.

Chairman JONES. I have asked the staff to pursue that.

Ms. OAKAR. That seems really far fetched to me, because the people who gets the lowest benefits are women. Their average check, I think, is between $300 and $350 a month.

Mr. GREGG. It includes life expectancy, which you would want to calculate, which is more for a woman, by about 7 years than for a man.

Chairman JONES. I think that is what that relates to, I am sure, because it is the percentage of each dollar that they put in that they would get back.

But I would like the staff to pursue that. It went somewhat unnoticed this morning. I do remember it. It is the kind of thing that, if it has validity to it, we ought to study it and see if we can do something about it. If it does not have validity, we ought to put it to rest, because it adds to the lack of confidence in the system being expressed by the young people.

Ms. OAKAR. I think it is really appropriate, since this is the 50th anniversary of this program, that you are looking at new approaches. I think that is very important.

Thank you, Mr. Chairman, and thank you, Congressman Gregg.

Chairman JONES. Our next witness, representing the Catholic Health Association, is Mr. William J. Cox, vice president for government relations.

Mr. Cox, you have been a patient man. I appreciate very much your testifying, and again, your testimony will be included in its entirety. We look forward to hearing from you.

STATEMENT OF WILLIAM J. COX, VICE PRESIDENT, GOVERNMENT RELATIONS, CATHOLIC HEALTH ASSOCIATION OF THE UNITED STATES

Mr. Cox. Right, Mr. Chairman. I just have two points to make in summary, and that is, first of all, that the Catholic Health Association very much supports the notion of removing the operations of the Social Security Trust Funds from the unified budget, and we would include in that proposal our recommendation that the Hospital Insurance Trust Fund, Medicare, part A benefits, be part of the package.

Our reasons for holding this position are stated in our extended comments, and have been stated in, and restated by many of the witnesses today.

With respect to the second issue that the subcommittee is examining, the issue of whether or not the Social Security Administration should be an independent agency, we are very sympathetic to that notion, while we do not yet have a firm position on that issue.

We also believe, however, that Medicare should be included in, Medicare, part A, should be included in any examination of that issue.

If you have any questions, I would be happy to answer them.

[The prepared statement follows:]

STATEMENT OF WILLIAM J. COX, VICE PRESIDENT, GOVERNMENT RELATIONS, CATHOLIC HEALTH ASSOCIATION OF THE UNITED STATES

Good morning. I am William J. Cox, Vice President of Government Relations of the Catholic Health Association of the United States (CHA). The Catholic Health Association is an association of hospitals and nursing homes sponsored by religious orders and dioceses of the Catholic Church. As a national association it represents 627 member hospitals and 288 long-term care facilities.

I am grateful for this opportunity to appear before you to testify on the issues of establishing the Social Security Administration as an independent agency, and removing the Social Security Trust Fund, including the Health Insurance Trust Fund, from the unified budget.

Each year, as the President and Congress consider the budget it is suggested that if something is to be dne about the awesome federal deficits sharp cutbacks will have to be made in the nation's entitlement programs such as Social Security and Medicare. As a result, there is growing confusion and uncertainty as to whether Social Security and Medicare (Part A) are being cut back because of important policy considerations related to the day-to-day living and health care needs of elderly Americans or as an expedient that addresses larger budget issues.

Earlier this year all of that seemed to change when the President both during and after the presidential campaign noted that "Social Security is totally financed by a tax that can only be used for that purpose. So when we talk about Social Security we're really not getting at the deficit problem at all." CHA agrees with the President. We would also point out that his logic just as forcefully extends to the Medicare (Part A) program.

Nevertheless, the recent budget agreement between the President and the Senate leadership includes cuts in the Social Security cost of living adjustment (COLA) and in the Medicare program. These proposed reductions are clearly driven by federal deficit requirements rather than any legitimate program or policy considerations.

CHA believes that is wholly inappropriate to allow federal budget deficit considerations to drive Social Security, Disability and Medicare (Part A) policy.

An examination of the facts indicates that:

Social Security, Disability and Medicare (Part A), are completely supported by their own trust funds: the federal Old Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund and the Federal Hospital Insurance Trust Fund.

These trust funds are financed by the FICA payroll tax; the level of which has been actuarially established to meet current and future levels of benefits payout.

The dollars in these funds are not fungible, that is, they cannot be removed from the trust funds to be used in direct support of other federal programs.

The monies in the trust fund must be invested in US government securities.

Cutting Social Security, Disability and the Hospital Insurance Trust Funds without also making corresponding cuts in the FICA tax only serves to create more dollars in the trust funds which in turn allows these funds to absorb more government bonds and notes.

In so far as these progarms are financed by the FICA tax which is set at a level to meet current and future benefit payout, cutting Social Security benefits without making corresponding cuts in the FICA tax could be perceived as a back door way of financing (not paying for but financing) federal programs other than Social Security.

The Catholic Health Association strongly believes that Social Security and Medicare should be shielded from cuts driven solely by the federal deficits.

This year, faced with a federal deficit in the $200 billion plus range, the Administration is proposing a $50 billion deficit reduction package, including $4.2 billion in Medicare reductions.

Are we to assume on the basis of recent federal budgetary history that since the government will very likely be facing a vista of large deficits for the rest of the decade that this and future administrations and Congresses will continue to seek Medicare reductions in the $4 billion range or larger?

CHA would suggest that neither Medicare nor hospitals can continue to absorb cuts of this order of magnitude and expect to survive. There has to be a limit somewhere on the extent to which the budget can continue to drive Medicare policy before it does unanticipated, unintended, and irreparable harm to the program and the healthcare needs of the people it serves.

CHA believes that since Medicare (Part A) is financed solely out of the employer-employee payroll tax, policies that affect it should be driven by program considerations including the soundness of the Hospital Insurance Trust Fund rather than overall federal budgetary limitations. Removing Medicare (Part A) from the budget would create procedural hurdles in the legislative process that would make it difficult to cut Medicare for other than policy reasons.

INDEPENDENT AGENCY CONCEPT

The proposal to remove the Social Security Administration from the Department of Health and Human Services and establish it as an independent agency is a relatively new and important idea that bears further careful thought and examination. The Catholic Health Association has not had sufficient time to develop its own view on this matter as of yet, but we are particularly sympathetic to Representative Pickle's view that

The public has doubts about the system because they are 'continually bombarded' with claims by both public and private leaders that the system needs to be changed, and there is widespread doubt as to whether the 'politicians' will let the system work. This legislation should reassure the public that their social security program is being operated in a solid long-term manner, and is not subject to every passing whim.

These comments are reflective of CHA's concerns and desires not only for Social Security but also for the Medicare (Part A) program. Accordingly, we believe it is a concept that should be explored further and with the view of including the Medicare (Part A) program.

SUMMARY AND CONCLUSION

In summary, the Catholic Health Association believes that the operations of the Social Security Trust Fund, including the Hospital Insurance Trust Fund (Medicare, Part A) should be removed from the unified budget and that this should be done at the earliest possible date.

Under the pressure of the large federal deficits overall budget considerations, not legitimate program and policy needs, have been driving these programs. Furthermore, we agree with the President when he says "Social Security is running on a surplus. And it is totally funded by a tax that can only be used for that purpose. So, when we talk about Social Security, we are not really getting at the deficit problem at all." We would only add that his logic can be easily extended to the Medicare (Part A) program as well.

Second, while CHA does not yet have a position on the issue of establishing the Social Security Administration as an independent agency, we believe the idea has merit and is worthy of additional serious consideration. Any further examination of this question, however, should include the Medicare (Part A) program.

Chairman JONES. Let me see if I understand the latter part of what you say.

Are you saying, at least part or all of the Medicare administration should be put into an independent agency, if the retirement and disability portion are?

Mr. COX. I think the subcommittee should look at that issue. I think that many of the arguments for putting Medicare into that independent agency are similar to the arguments that you would use in support of removing Medicare, part A, from the unified budget.

Chairman JONES. Since Medicare is partially funded by general treasury funds, and presumably you would want——

Mr. COX. Just part A. That is why I am just talking about part A benefits.

Chairman JONES. Even the administration—you would provide the administration of that?

Mr. COX. Pardon?

Chairman JONES. If you were to put the part A for administrative purposes into an independent agency, along with retirement income, would you not also put the other part of Medicare into it?

Mr. COX. You might well do that, although it is funded separately.

Chairman JONES. Since it is funded separately, then would you consider putting SSI in there, also?

Mr. COX. I am not—if it is funded through a trust fund particularly.

Chairman JONES. Which it is not.

Mr. COX. I think that special consideration should be given to the trust funded programs, because of the nature of the way they were established and funded. General revenue supported programs raise another question, and that is something that if you would include Medicare and SSI, I think you would have to look at the ramifications of also having two different funding sources being administered by one program.

Chairman JONES. I think you raise an interesting question, because from an organizational point of view, it is really difficult to separate retirement income security from the the health security, from supplemental retirement security, or supplemental income security. And then, if you start putting them all into one independent agency, you have got both trust funds and dedicated funds, and also general treasury funds. That gets to be a bit of a problem, too.

I think we are going to have to consider that very carefully.

Mr. Gregg.

Mr. GREGG. I have no questions.

Chairman JONES. Thank you very much for your testimony.

Mr. COX. Thank you, Mr. Chairman.

Chairman JONES. That concludes our witnesses today. We will continue to consider these two issues, and the committee shall be adjourned.

[Whereupon, at 1:55 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

The American Association of Retired Persons (AARP) is pleased to submit this statement for the record.

AARP supports the creation of an independent agency to administer Social Security in order to insure that the daily functioning of this vital program is separated from the concerns of partisan politics.

It is our belief that the Social Security Administration (SSA) can best serve the interests of Social Security beneficiaries only if it is able to function in a stable environment that is conducive to long-range planning, and is staffed by competent, professional management.

At the heart of our position is the belief that the confidence of the American public in the Social Security Administration can only be preserved through the efficient, fair and even-handed treatment of the programs administered. We believe this objective can only be achieved through the creation of an independent agency.

SSA currently serves the needs of a constitutency that totals 36 million Americans. It maintains the wage records of 116 million workers, and processes the claims and information requests of millions more annually. Surely the smooth functioning of this massive system requires Congress to assure the system is insulated from daily political concerns. It is for the same reasons that the Association is opposed to the proposed closure of Social Security field offices. This is a prime example of political and short term budgetary concerns outweighing the needs of the system's recipients.

Regarding the removal of the Social Security trust funds from the unified budget, we agree with President Reagan's recent observation that Social Security is not currently adding to the budget deficit. Quite the contrary, the Social Security trust funds are solvent and running a surplus. The drive to cut COLAs is unwarranted in light of surpluses which presently exist in the Old Age, Survivors, and Disability Insurance programs. COLAs are not contributing to the deficit, and should not be called upon to reduce it. These trust funds are financed by dedicated payroll tax revenues, which by law cannot be used for other purposes. It is for this reason that AARP supports the decision already made by the Congress to eventually remove Social Security from the unified budget.

STATEMENT OF FRANCIS M. SCHAUER, CHAIRMAN, COMMITTEE ON SOCIAL INSURANCE, AMERICAN ACADEMY OF ACTUARIES

This statement is being submitted for the record of the hearing on the Social Security Administration being an independent agency and removing Social Security from the unified budget which was held on April 23, 1985. This statement is being submitted on behalf of the Committee on Social Insurance of the American Academy of Actuaries ("Academy").

By way of background, the Academy is a professional association of over 7,800 actuaries involved in all areas of specialization within the actuarial profession. The Academy's focus is the social, economic, and public policy environment in which the actuarial profession functions. The Academy has frequently testified on Social Security legislation before Congress.

We wish to comment on a point raised in the testimony of Robert J. Myers, a member and former President of the Academy. The last paragraph of his statement to the Subcommittee is as follows:

"Finally, I note that the bill provides specifically for a General Counsel of the new agency. I suggest that the same treatment should be applied for the position of Chief Actuary."

We wish to support the suggestion made by Mr. Myers. The position of Chief Actuary of the Social Security Administration has long been recognized as one of the most important actuarial positions in the Federal Government. It has been looked to by all parties interested in Social Security as a critically important position in the development of both long and short-range cost estimates for the program, as well as an important source of other policy and technical guidance.

We have reviewed Section 102 of H.R. 825 and have learned that such positions as "Beneficiary Ombudsman," "General Counsel," and "Inspector General" are specifically establish by the bill. We believe that the position of Chief Actuary is every bit as critical to the Social Security Administration as those positions and thus warrants similar recognition.

We would also observe that the Chief Actuary's office has long been recognized as the primary source of independent, objective, and technically sound cost estimates free of political bias. In fact, the importance of these estimates was recognized formally by statute in the 1983 Amendments with the addition of a requirement for a statement of actuarial opinion to be contained in the annual Trustees Reports. It is imperative in any restructuring of the Social Security Administration to maintain the traditional independence of this position, so that the cost estimates will continue the excellent tradition of credibility they have always had.

We appreciate the opportunity to submit this statement for the record and will be happy to provide further information at the request of the Subcommittee or its staff.

STATEMENT OF THE AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL-CIO appreciates the opportunity to submit our views on H.R. 825, a bill introduced by Chairman Rostenkowski, Mr. Pickle, and Mr. Archer, which would establish the Social Security Administration as an independent agency. We also wish to convey our views on the issue of removing social security trust funds from the unified budget.

The social security system is one of the nation's most successful achievements. In one way or another social security affects the lives of almost every American family.

The program collects contributions from 116 million workers, covers more than 200 million Americans and each month disburses cash benefits to 35 million beneficiaries. More than 90 percent of people 65 or older are eligible for social security benefits. Eighty percent of the men and women ages 21 to 64 would receive benefits in the event a family breadwinner incurred a severe long-term disability. Ninety-five percent of spouses and dependent children are eligible for benefits if a family breadwinner dies. For older Americans, social security benefits represent a large majority of their retirement income and are the foundation on which their economic security rests.

The importance of this program to the nation makes it imperative that the financial integrity and non-political administration of the system be assured. The program must be insulated from objectives unrelated to its legitimate and intended purposes.

REMOVAL OF TRUST FUNDS FROM UNIFIED BUDGET

A majority of the members of the National Commission on Social Security Reform recommended that the operations of the social security program be removed from the unified budget. They felt that this would help to assure that changes in the program would be made only for programmatic reasons and not for objectives that do not relate to the effectiveness of the social security program. AFL-CIO President Lane Kirkland was a member of the National Commission and strongly supported this recommendation.

Since 1969, the financial transactions of the social security systems have been combined, for purposes of economic analysis, with the administrative budget and since 1974 have been included within a unified budget which combines regular federal income and expenditures with the self financed social security program. Since the Social Security Amendments of 1983, trust fund operations have been treated as a separate function within the budget. These amendments also provided for the removal of trust fund operations from the unified budget beginning with FY 1992.

Social Security trust funds may be used only for the payment of social security benefits and administrative expenses. However, inclusion of the trust funds in the unified budget leads to confusion in the public mind as to whether these funds are used exclusively for social security programs and how well protected are the social security rights of covered individuals.

The inclusion of social security trust funds within the unified budget distorts decisions concerning both social security and non-social security programs. One direct result has been the misleading use of social security trust fund money as a means of reducing the federal budget deficit. Balancing trust fund income when it is in surplus against non-social security expenditures makes the unified budget deficit look smaller. Even worse, changes in social security benefits are considered not on their merits but on the basis of their impact on the overall budget deficit.

Cutting benefits without making compensating benefit improvements results in a surplus in the trust funds an thereby reduces the deficits in the unified budget. This fiscal slight of hand is repeatedly reflected in Administration and Congressional budget recommendations. The most recent examples are the Congressional and Administration proposals to reduce the budget deficit by freezing or reducing the Social Security cost of living adjustments. These proposals are strongly opposed by the AFL-CIO. We do not believe that the elderly, who in large measure depend on social security payments for their livelihood, should hear the burden of clever bookkeeping to make any budget look better.

Social Security is a self-financed program paid for by workers and employers. In no way does it currently contribute to the Federal deficit. Actually, social security trust funds are projected to reduce the federal budget deficit by more than $150 billion between now and 1990. In short, social security didn't cause the deficit—actually it makes the deficit better and should not be tampered with to meet problems it didn't cause.

Social Security claims built-up by past earnings and contributions are not a proper matter for year to year budgetary decisions. The government must rigorously discharge its responsibilities as trustees for those who have built-up rights under the system. The program must be kept free from political influence or manipulation geared to the ups and downs of the budget process.

We see no reason to wait until 1992 for social security to be removed from the unified budget. It is essential to protect the program from constant manipulation soley to improve the overall budget picture as soon as possible. Therefore, to protect present and future beneficicaries and to strengthen public confidence in the system, we urge the Sub-committee to support legislation which would exclude social security trust funds from the unified budget beginning with FY 1987.

SSA AS AN INDEPENDENT AGENCY

The AFL-CIO generally supports the provisions of H.R. 825. The bill would effectively establish an independent Social Security Administration and we urge the Subcommittee to give favorable support to the principles embodied in it.

It is not good public administration to have this vitally important agency operated as a subordinate unit of an executive department of government. The Social Security Administration would operate more efficiently and better meet the needs of beneficiaries and contributors if it were not hampered by the many shifts in the administrative policy within the Department of Health and Human Services resulting from short run decisions. These decisions include revisions in staffing levels and changes in management philosophy that accompany the turnover of Health and Human Services Secretaries, Social Security Commissioners and their immediate staffs.

On the basis of priorities set by the Department of Health and Human Services or the Office of Management and Budget, SSA has been deprived of needed administrative resources. These agencies have forced upon the Social Security Administration unwise actions which it would not have undertaken if it had been free to pursue a course of action dictated only by the requirements of the Social Security program. The unfortunate experiences endured by tens of thousands of disability beneficiaries under the continuing disability investigation program due to strictures placed on SSA by HHS and OMB are a noteworthy and painful recent example.

SSA's excellent administrative reputation has been tarnished because of an antiquated, overtaxed computer system and by insufficient personnel. A recent General Accounting Office investigation showed the agency has an embarrassingly high error rate. An independent SSA would have been able to move quickly to modernize its computer capacity and thereby prevent such a situation from developing into the problem it has become.

Tens of thousands of beneficiaries who made social security contributions throughout their working lives have suffered unfair treatment or improper handling of their benefit claims. It is likely that many of these problems would not have arisen had the SSA been able to make independent decisions free from the pressures of political appointees.

An independent, nonpolitical Social Security Administration need not change most of the interrelationship between the agency and other governmental units. For example, ultimate Congressional control over the program would not be changed.

In order to increase public confidence in the program, to improve its operation, and to insure its nonpolitical administration, we urge the Subcommittee, to report favorably H.R. 825.

STATEMENT OF THE AMERICAN MEDICAL ASSOCIATION

The American Medical Association takes this opportunity to submit its comments on H.R. 825, the Social Security Reorganization Act of 1985. This bill would establish the Social Security Administration as an independent agency. The bill implements the recommendation of the National Commission on Social Security Reform submitted to Congress of last June that Social Security should be removed from the Department of Health and Human Services and established as a separate agency.

The American Medical Association believes that simply establishing a separate Social Security Administration would not satisfactorily deal with the organizational problems of the current Department of Health and Human Services, nor would it fully exploit the range of exciting and beneficial opportunities that can come about through a different type of departmental reorganization. We believe this subcommittee has the opportunity to consider a fundamental restructuring of the Department of Health and Human Services in its review of the appropriate organizational format for Social Security.

We believe that there should be a recognition of the different missions of the Department of Health and Human Services: the administration of cash benefit programs, such as Social Security and Aid to Families with Dependent Children (AFDC), and the administration of medical benefit and public health programs. We believe that to carry out these diverse missions better, there should be a separate Department of Health established that would exercise responsibility over Medicare, Medicaid and Public Health Service programs (including the Centers for Disease Control and the National Institutes of Health). Until such time as a Department of Health is established, we support proposals to elevate the Assistant Secretary for Health to Under Secretary for Health within the current Department of HHS, as provided in legislation introduced in the last Congress (H.R. 5438). We do not believe that the Health Care Financing Administration should, under any circumstances, be transferred away from the other health functions of the existing Department of Health and Human Services.

For nearly one hundred years, the American Medical Association has advocated the creation of a separate cabinet-level federal Department of Health. While the issue has not been actively considered by Congress in recent years, it is more important now than ever before that this country give serious consideration to the establishment at the federal level of a separate Department of Health.

Historical background. In the early nineteenth century, the federal focus for medically-related matters was the Surgeon General of the Army and the Medical Department of the Navy. In the mid-1800s, the Public Health and Marine Hospital Service was created within the federal government; in 1913 this agency's name was changed to the U.S. Public Health Service (PHS). In 1939 the U.S. Public Health Service was merged with the U.S. Office of Education and the Social Security Board to create the Federal Security Agency (FSA).

Proposals to make FSA a Department began in 1947 with a bill which would have established a Department with three divisions: health, education and security. Each division would have been headed by an Undersecretary, and the Undersecretary of Health would have been required to be an M.D. This proposal was not enacted.

In 1949 the Hoover Commission on governmental reorganization recommended the creation of a Department to handle social security, education and welfare; it also recommended that the Public Health Service be placed in a separate non-departmental "United Medical Administration." The Truman Administration rejected this approach and unsuccessfully sought approval for two reorganization plans that would make FSA a Department.

In 1953, the Eisenhower Administration submitted a reorganization plan to create the Department of Health, Education and Welfare (HEW). It required that the Department have a Special Assistant for Health and Medical Affairs who was to be a physician with wide non-governmental experience. While AMA continued to favor a separate Department of Health, the creation of HEW was endorsed by the Association as a "step in the right direction," and AMA testified in support of the proposal. The reorganization was enacted, and HEW came into existence in April 1953.

Various reorganization proposals were suggested by commissions and private studies during the 1960s and 1970s. These ranged from proposals to break up HEW to proposals such as President Nixon's "Department of Human Resources" that would have attached to HEW other agencies in related subject areas. The only department-level reorganization with respect to HEW since 1953 was the creation in 1979 of a separate Department of Education which also changed HEW's name to the Department of Health and Human Services.

NEED FOR A DEPARTMENT OF HEALTH

There are many reasons warranting the creation of a separate Department of Health. A strong argument can be made that the Department of Health and Human Services is simply too big. Its proposed fiscal year 1986 budget of $352 billion makes it the third-largest budget in the world, exceeded only by the national budgets of the United States and Soviet Union. The Department is far bigger than all other cabinet-level federal departments. The Department employs approximately 140,000 workers in Washington and in regional offices throughout the country. Through grants and contracts it indirectly provides jobs for tens of thousands of others. Ninety-six percent of the HHS budget represents entitlement spending, and millions of Americans benefiting from HHS-administered programs are affected by HHS decisions on program implementation. Both in terms of people affected and amount of dollars involved, the Department of HHS is a massive presence both in the U.S. government as well as in the American economy and society in general.

The Department is responsible for administering health and welfare programs which are the foundation of our domestic social welare system: Social Security, Medicare, Medicaid, Maternal and Child Health and other health Block Grants, Supplemental Security Income, Aid to Families with Dependent Children, the Public Health Service, and many other programs.

The importance and size of these programs combined, in relation to other federal departments, provide enough work for three or four departments. Yet, all of these functions are represented at the cabinet level by one Secretary who is responsible for the entire network of social programs.

Congress did not originally intend to create such a behemoth. When the Department of HEW was created in 1953 it had a budget of only a few billion dollars. In 1960, its budget was still under $25 billion. However, the budget has expanded more than tenfold since that time. Even the spinning off of the Education function into a separate Department had little impact on the upward climb of HHS expenditures.

It is now time to complete the process started when the Department of Education was created. It is now time to establish a separate Department of Health as well. The reasons for splitting off the health function are compelling.

The task of administering health programs such as Medicare, Medicaid, and the Public Health Service requires government officials and employees with an expertise in the increasingly-sophisticated arena of health care technology and changing delivery modes. The mission of these agencies is fundamentally different from the missions of HHS income-security programs. The need for assuring access to quality health care to the elderly and needy, with its attending escalating costs, has emerged as a major issue on the national agenda and deserves the priority attention that would be provided by creation of a separate cabinet level Department of Health. The increasing importance and size of the health-related programs of HHS indicate the need for their own cabinet level Department and Secretary who can direct national resources and attention to health issues without the complications of administering welfare and other cash assistance programs. Federal outlays for Medicare alone, which were $1.2 billion in 1966, reached $62.7 billion in 1980 and are projected at $150 billion for 1960. Cost pressures in both Medicare and Medicaid will continue—given the projected increasing percentage of the U.S. population of those age 65 and older.

Separation of the health and welfare missions of HHS into two separate departments should also make more rational the Congressional budgeting process as Congress wrestles with allocations of resources in an environment marked by large deficits. If there were separate departments, choices would be clearer between the two functions, and a separate Secretary of Health could devote the time necessary to significant health functions unburdened by concerns with the cash assistance goals of the Department of HHS.

Having a separate Department of Health is not a novel idea—30 of the 50 states have deemed it appropriate to establish separate Departments of Health. Of those 30, a majority have a physician as the Director of the Health Department. We believe it is important that the Secretary of a separate federal Department of Health should be a physician. A licensed physician would have the background necessary to understand patient care and public health issues and would command the necessary respect from the health care community in confronting issues involving health professions and health facilities. A physician Secretary would also serve as a knowledgeable spokesperson on health issues before Congress, in cabinet meetings, and before the public at large.

The American Medical Association strongly advocates the creation of a separate U.S. Department of Health for all of the reasons stated above. It would provide the necessary priority focus for a large and rapidly growing segment of the federal budget and the national economy—health—which faces unique problems unrelated to the other functions of the sprawling Department of Health and Human Services.

The "Under Secretary for Health" Proposal. At present, the Department of Health and Human Services is headed by a Secretary with one Under Secretary of Health and Human Services. Within the Department there are seven assistant secretaries (including an Assistant Secretary for Health) as well as the Administrator of the Health Care Financing Administration and the Commissioner of the Social Security Administration. Until such time as a separate Department of Health is established, a position of Under Secretary of Health could be created to direct all of the health functions of the Department of Health and Human Services.

The American Medical Association has prepared legislation to change the designation of the current Under Secretary of Health and Human Services to Deputy Secretary of Health and Human Services and establish an Under Secretary of Health and an Under Secretary for Human Services. The Under Secretary of Health would be required to be a physician (M.D. or D.O.) and would have all of the current responsibilities of the Assistant Secretary for Health as well as the Health Care Financing Administration, all Public Health Service programs, and such other duties as prescribed by the Secretary. This legislation was introduced in the last Congress (H.R. 5438) by Energy and Commerce Health Subcommittee Chairman Waxman and the senior minority member of that Subcommittee, Representative Madigan.

In early 1981, President Reagan announced his intention "to see that this position [Assistant Secretary for Health] is elevated to Under Secretary of Health in accordance a reorganization plan that will be announced later." No such reorganization plan has been introduced as of this time. The submission of such a plan is problematic due to the need to extend the recently reauthorized executive reorganization act under which Executive Reorganizations may be promulgated for review by the Congress (which has the authority to disapprove).

HCFA—Current and Future Roles. The Health Care Financing Administration (HCFA) is responsible for administering two large and important health care programs: Medicare and Medicaid. We believe that HCFA has in the main done a remarkably good job carrying out its responsibilities concerning these massive and important programs. We favor continued use of private intermediaries and carriers for actual claims administration. We believe, however, that HCFA's mission could be carried out more effectively if it and HHS's other health agencies were placed in a separate Department of Health or, alternatively as an interim measure, administered by an HHS Undersecretary for Health. While we recognize the value of cooperation between the Social Security Administration and HCFA, it cannot be emphasized too much that Medicare and Medicaid are medical programs. They should never lose this important health orientation; that is why we believe HCFA should be organized with HHS's other health functions and elevated to a higher level of organizational authority.

Conclusion. The American Medical Association believes that in any discussion concerning major reorganization of the Department of Health and Human Services, there should be strong consideration of the merits of establishing a separate U.S. Department of Health. As we have discussed, the increasingly complex nature of medical and other health issues facing the Federal government begs for knowledgeable management and direction. Such direction and management can be provided if a separate department is created to focus on these important and sensitive issues. Until such time as a separate Department is established, however, we support legislation to elevate the Assistant Secretary for Health to the position of Undersecretary of Health, with responsibility for all health programs in the Department.

STATEMENT OF JACK A. MEYER,[1] RESIDENT FELLOW IN ECONOMICS AND DIRECTOR, CENTER FOR HEALTH POLICY RESEARCH, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. Chairman, thank you for the opportunity to present my testimony to this committee. I have been asked to comment on the advisability of considering Social Security as part of the budget of the federal government. There are two ways of thinking about this question. One involves a narrow technical question of whether the Social Security trust funds should be removed from the unified budget and treated as self-standing trust funds. Congress has spoken on this question in the Social Security Amendment of 1983, and the trust will be uncoupled from the federal budget in 1993, unless Congress acts differently.

In my opinion, we are better off thinking of Social Security as part of the federal budget (for reasons that I will explain below). Since I fear that uncoupling Social Security from the budget in a formal or technical sense would also lead us to remove it from policy considerations, I would be in favor of a proposal to keep Social Security in the federal budget.

The other way of thinking about this question is less technical and more policy-relevant in today's fiscal climate. This approach involves the question of whether Social Security is really a part of the federal fiscal process (technical definitions aside) and, more important, whether Social Security should be a part of the solution to the deficit problem.

I would like to focus my attention in this statement on the second question, which I find to be the more compelling issue facing the country in 1985. Specifically, I would like to challenge the prevalent notion that Social Security should be exempt from the budget-cutting process because of the fact that the Social Security trust funds are now running surplus balances. The argument that I wish to counter usually runs something like this—Social Security should not be a part of a deficit-reduction package because it has not "contributed to the deficit problem." According to this viewpoint, Social Security has operated over the past several decades with a fiscal prudence that puts the rest of the federal budget to shame, and it would be unfair to include a program that is not culpable in the "punishment" for past fiscal profligacy.

Furthermore, it is argued that including Social Security in a deficit-reduction package is not only unfair, but also futile. Slowing the rate of increase in Social Security payments, according to this logic, simply piles up added surpluses in the trust funds, and such additional surpluses do not lower the deficit one bit. Thus, the elderly are called upon for a sacrifice that would not even produce benefits that might justify the proposed policy changes. Finally, operating under the mistaken notion that a policy change would necessarily have to apply equally to all Social Security recipients, opponents of including Social Security in a budget package contend that millions of elderly people would be thrown into poverty if Social Security benefit provisions are altered.

ANOTHER POINT OF VIEW

The point of view just outlined is held by people whose judgment and experience I respect. But, I would like to offer a competing point of view that challenges the basic concepts underpinning the above logic. The agrument that Social Security should not contribute to the solution because it did not contribute to the problem strikes me as a syllogism with correct premises, but a conclusion that does not follow from the premises. There is no doubt that the deficit is slightly smaller, not larger as a result of Social Security. Nonetheless, it does not follow that Social Security should be off limits in the budget-trimming process, according to the criteria that I will outline for budget sacrifices.

WHO SPENDS THE MONEY?

The first criterion that I employ for deciding whether to include an area of activity in the federal budget is a simple one: if the federal government collects and spends the money, the activity in question is part of the federal budget.

In my view, the fact that Social Security is funded primarily by a payroll tax that works through a series of trust funds, rather than by general revenues, and thereby faces certain balancing requirements between the inflow and outflow of funds, does not mean that the expenditures for benefits should be thought of as something apart from the federal government. After all, it is the federal government that mails out those checks every month, not General Motors, and it is the federal government that collects the money to do so. To suggest that Social Security is not a part of the budget because of the peculiar nature of the tie between revenues and outlays masks the basic nature of the program—a nature which is fundamentally public.

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[1] The views expressed in this testimony are those of the author and do not necessarily represent those of the American Enterprise Institute, a nonprofit research and educational institution that does not take positions on public policy issues.

WILL A PROGRAM CHANGE THAT SAVES MONEY ALLEVIATE THE DEFICIT PROBLEM?

The second criterion I employ is a little more complicated. This criterion can be stated as follows: if a program change will alleviate the deficit problem, then that program should be thought of as part of the budget. Note that I have chosen my words carefully, stating the issue in terms of the actual economic effects of a proposed action, not the mechanics of the process or the technical disputes about how the deficit is measured.

This is an important distinction. There are two answers to the technical question about the impact of a proposed temporary limit to annual increases in Social Security benefits on the measured size of the deficit. In my view, however, there is only one answer to the question of whether the impact of such a change on the economy would be favorable. A reduction in the annual cost-of-living escalator (COLA) adjustment to Social Security benefits would increase the surplus in the OASI trust fund. There is honest disagreement about whether this increased surplus lowers "the deficit"—it does if you define the deficit one way (a unified budget concept), and it does not if you define the deficit more narrowly (exclusive of trust fund balances).

This disagreement, which has generated so much technical heat and so little policy light, masks a more important—and I think controlling—factor. The additional surplus in the trust fund caused by a COLA reduction (in this example) will cushion the impact of the deficit on the economy. It is important to note that this effect transcends the arcane debate over whether the surplus in the OASI fund should or should not be subtracted from the deficit in the "non-Social Security" budget. Regardless of how one feels about this measurement question, one can predict that a surplus in the trust fund will lessen the advere consequences of the budget deficit, and a larger surplus will lessen those consequences further.

Why is this? The favorable effect occurs because the additional funds in the trust account are used largely to purchase Treasury bills—and these purchases help to finance the federal deficit. Thus, the borrowing requirements from the private sector of the economy to finance the federal deficit are correspondingly diminished. This reduction cushions the adverse impact of a federal draw upon the pool of private savings, whatever that adverse impact might be.

The key point is that the enlarged trust fund surplus enables the federal government to "internally finance" a larger portion of its debt. The net "dissaving" of the federal government is less than it would otherwise be, and thus the offset of federal dissaving to private sector saving—the real concern—is correspondingly smaller. The bottom line from a measure that raises the surplus in the trust fund should be less upward pressure on interest rates, and after all, this goal is a major reason why we are trying to get a handle on the deficit.

There are two important lessons to learn in this debate: First, the economic impact of a proposed reduction in some category of government spending is not affected by whether we designate the program as "on-budget" or "off-budget." Second, the impact of taking a dollar out of government spending is the same irrespective of whether that dollar would have been spent for an increase in Social Security benefits, national defense, or some other program area. Any dollar cut means a dollar less that the U.S. government must borrow. Since we must reduce Treasury borrowing requirements from levels implied by our current path, we should not buy arguements suggesting that some dollars don't count in this effort. In this game, a dollar is a dollar.

ARE SOME PROGRAM RECIPIENTS ABLE TO AFFORD THE PROGRAM CHANGE?

The third criterion I employ involves the fundamental social issue of whether some program beneficiaries are in a position to take a smaller increase in benefits over time. This is not a question of whether a cut from baseline growth would be painless—it rarely is painless. It is more of a relative question—looking across the federal budget, which beneficiaries would be relatively more able to cope with a benefit adjustment?

It is worth stressing that this criterion again transcends the accounting artifacts and fiscal sleight of hand that arbitrarily (and superficially) move programs "on" or "off" the budget. It cuts through to the core of the situation—who is helped by government programs, and who can best afford to be helped slightly less, so that a government like ours that continuously and incredibly spends about one-fourth more than it takes in can get its fiscal house in order?

By this criterion, there is no question in my mind that Social Security should be a part of a deficit-reduction package. According to data compiled by the Ways and Means Committee of the U.S. House of Representatives, mean after-tax income per household member 65 years of age and over in 1982 was $7,845, a figure higher than the corresponding figure for any five-year age cohort between the ages of 15 and 54.[1] The same relationship holds for average assets.[2]

Social Security benefit increases doubled the pace of wage and salary increases between 1950 and 1983 and tripled the rise in the Consumer Price Index over this period. While the CPI rose 312 percent over this period and median annual wages and salaries grew by 451 percent, averge monthly Social Security benefits for retired workers rose by 905 percent.[3]

I am aware that the sharp increase in Social Security benefits, combined with the Medicare and SSI programs, has contributed to a dramatic reduction in elderly poverty, from 28.5 percent in 1966 to 14.1 percent in 1983.[4] We can be proud of this accomplishment. By contrast, the poverty rate for the overall population was about the same in 1983 as in 1966 (15.2 percent versus 14.7 percent, respectively).[5]

We certainly would not want to slash Social Security benefits and reverse the success we have had in reducing elderly poverty. But, we can make small changes—generating billions of dollars in federal savings—that ask elderly people well above the poverty range to forego scheduled benefit increases temporarily, or receive somewhat smaller increases, while at the same time shielding our needy elderly from this sacrifice.

There are three general approaches to shielding low-income elderly households from a measure such as a COLA limitation. First, the full COLA could be paid to all beneficiaries and then "taxed back" by subjecting the full COLA to federal taxation explicitly. Under current law COLAs are subject to taxation in certain cases involving taxpayers exceeding the income thresholds specified in the 1983 legislation. Under this proposal, the COLA would be considered as ordinary income irrespective of the $25,000 and $32,000 income thresholds for single and married elderly recipients. This proposal would be a fair, but arguably complex way to proceed.

Second, a more simplified approach would involve paying the full COLA on a specified amount of benefits (say $4,000 per year) and a lesser amount or nothing above that level. A drawback of this approach, however, is that higher Social Security benefits may go to some lower-income households, and vice versa, so that the cap might not line up well with actual need.

Third, a COLA freeze could apply to everyone, but low-income Social Security recipients could receive offsetting increases in the Supplemental Security Income (SSI) program. This would shield those who are recipients of SSI, but might leave those a little above SSI eligibility criteria vulnerable. Paying the COLA and "taxing it back" would afford a more graduated targeting, but the SSI approach does not require any new administrative apparatus.

THE NEED FOR A COMPREHENSIVE APPROACH

If we are to make meaningful progress in lowering the deficit, all major parts of the budget must be under review, including national defense, entitlements, and revenue foregone through so-called tax subsidies. We will never get out of the fiscal mess we are in if one group holds defense off-limits and another group holds Social Security and other non-means-tested entitlements such as Medicare off-limits in the budget-cutting process. Indeed, taken together, national defense, Social Security, Medicare, and interest on the national debt comprise about tow-thirds of the federal budget. If these areas are deemed sacrosanct and untouchable, meaningful deficit reduction without a major tax increase is impossible. And, before we discover this, we will have slashed programs in the remainder of the budget targeted much more tightly to actual need.

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[1] Committee on Ways and Means, U.S. House of Representatives, "Background Materials on Programs Within the Jurisdiction of the Committee on Ways and Means," February 22, 1985, p. 92.

[2] Ibid., p. 92.

[3] *Economic Report of the President*, February 1985, p. 165.

[4] "Money Income and Poverty Status of Families and Persons in the United States: 1983," p. 60, No. 145.

[5] Ibid.

This imbalance is not hypothetical—it has been happening. Between 1970 and 1984 average annual expenditures per recipient, in constant 1984 dollars, have risen by 116 percent for Medicare and 54 percent for Social Security (non-means-tested benefits), but have fallen by 34 percent for AFDC.[6] Indeed, real benefit levels for AFDC and Food Stamps combined for a family of four with no income fell by 21.9 percent between 1972 and 1984.[7]

SUMMARY

In summary, the criteria I use here relating to sound economic policy and basic fairness suggest that the Social Security program should be considered in a deficit-reduction effort. The lowest income Social Security recipients can, and should be shielded in this process, just as low-income nonaged people should be protected. Such people have suffered enough.

No drastic actions are required. There are enough middle- and upper-income beneficiaries in a wide variety of government programs—including Social Security recipients, civilian and military federal retirees, veterans, farmers, defense contractors, and recipients of tax preferences—that we can make relatively small changes across the board and generate huge savings while at the same time protecting our neediest citizens. Any dollars saved in this process will reduce the borrowing requirements of the federal government and thereby enhance the prospects for sustainable economic growth.

STATEMENT OF JENNETTE FANNING, PRESIDENT, AND MARTHA MARSHALL, LEGISLATIVE CHAIR, NATIONAL ASSOCIATION OF DISABILITY EXAMINERS

The National Association of Disability Examiners is the professional organization representing disability examiners who adjudicate claims for the Social Security Administration. The majority of members are employed in the fifty-four State Agencies under contract to the Social Security Administration. Others are employed in SSA's Central Office, are attorneys representing Social Security applicants and beneficiaries or perform medical and psychological consultative examinations. We share a common desire to see the Social Security program administered fairly and efficiently. Therefore, NADE strongly supports the establishment of Social Security as an independent agency.

For the past few years our members have been deeply concerned about the chaotic state of the Disability Program. We actively supported reform legislation and were greatly pleased by passage of the 1984 Social Security Reform Act. We are concerned that implementation of this legislation is progressing so slowly and believe this is due, in part to the current organizational structure and layering of authority.

We do not oppose the idea that changes made in the Disability Program should be subject to careful review. However, we agree with the statement of Robert J. Myers, former Chief Actuary, Social Security Administration, in his July 30, 1984 testimony before the Subcommittee on Social Security: ". . . policy decisions are often made for reasons other than program ones. Some proposals have been supported for general Budgetary reasons, even though not good program changes." The extent to which OMB controls changes, as in the medical listings of impairments, for example, is disturbing. (Incidentally, even though the proposed changes in the medical listings were first published in the Federal Register over two years ago, and disability examiners and other State Agency personnel underwent training to adjudicate claims using these listings, they have still not been effectuated. They are now going back through the clearance process.) We believe necessary changes could be made more quickly—and more responsibly—if Social Security were an independent agency.

It is NADE's belief that the Social Security Administration, as an independent agency, will be strengthened in its abilities and means to provide consistent decisions and provide uniformity (last absent in the Disability Program alone) for the citizens who rely upon the benefits it provides. We support the concept of an administrator who would assume the responsibility for the actions of the agency. Support by an advisory council is advisable so long as the administrator has the final authority for oversight of the programs under the agency's control. The permanancy of the administrator's position for a four-year, renewable term would enhance the position and eliminate the current problems encountered when the title of "Acting Commissioner" lends itself to short-term actions by the incumbent.

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[6] Committee on Ways and Means, op. cit. p. 6.

[7] Ibid., p. 530. The AFDC estimate is a national average.

We believe that an independent agency would be better able to secure the equipment, as well as personnel, needed for accurate service to the public.

NADE supports the recommendations of the Congressional Panel on Social Security Organization. Social Security impacts on the life of nearly every citizen. It is important that it be a stable organization whose policies and regulations are not subject to changes in the political climate. It is equally important to assure accountability. We further believe that removing Social Security from the unified budget as soon as possible would be a major step in removing the program from the political arena. Budgeting based on work force planning, as recommended by the Panel and in recent legislation, is extremely important to enable the Agency to secure adequate resources.

We believe that the Agency should have responsibility for the OASDI and SSI Programs. These programs have overlapping features and the disability portion of the SSI program coincides with and uses the same medical eligibility criteria as the Social Security Disability Program. Although there may be valid arguments in favor of including Medicare and Medicaid, these programs are currently not administered by Social Security and we agree with the Panel's rationale for not including them in the new Agency. We feel strongly that other programs currently administered by Social Security (AFDC, Child Support Enforcement, Low Income Energy Assistance and Refugee Resettlement) should be removed from SSA's jurisdiction.

The Social Security and Supplemental Security Income programs are enormous programs to administer. NADE feels very strongly that these programs must be administered equitably. Changes, when needed, must be made quickly, but with due consideration. They cannot be bogged down in layers of authority or made abruptly based on changes in the political climate. Efficient long-range planning and accountability are necessary to restore public confidence. This is especially important for a publically funded program, and would lead to increased cooperation by the public with the Agency. We believe this can best be accomplished by establishing Social Security as an independent agency, responsive and responsible to the public it serves.

STATEMENT OF THE NATIONAL ASSOCIATION OF PRIVATE PSYCHIATRIC HOSPITALS

Mr. Chairman: NAPPH welcomes this opportunity to comment on H.R. 825, a bill to establish the Social Security Administration as an independent agency, and on the issue of removing Social Security from the unified budget.

The National Association of Private Psychiatric Hospitals (NAPPH) is a nonprofit organization representing the nation's freestanding, nongovernmental psychiatric hospitals. Our member hospitals offer programs for the care of children, adolescents, adults, the elderly, and alcohol and substance abusers with psychiatric disorders. Our hospitals are accredited by the Joint Commission on Accreditation of Hospitals (JCAH) program for psychiatric hospitals that include residential treatment centers for children and university-affiliated hospitals. NAPPH hospitals maintain active treatment programs for all patients. Treatment includes inpatient care, follow-up, and after-care services.

NAPPH endorses the creation of the Social Security Administration as an independent agency and removal of the trust funds from the unified budget. An independent Social Security agency, as proposed by H.R. 825 and administered by a bipartisan board, would result in reduced political pressures, increased public confidence in Social Security, and greater efficiency in administering Social Security programs.

NAPPH urges that Medicare should be removed from the federal budget as well. Medicare Part A of Title XVIII of the Social Security Act was designed to be self-supporting for benefit payments and administrative expenses. It is solely financed through FICA payroll taxes levied on employers and employees and cannot have any impact on the federal deficit. The dollars in this trust fund cannot be used to support other federal programs. Reducing Social Security, Disability, and the Hospital Insurance trust funds, without making corresponding cuts in the FICA tax, only serves to increase the money in those fund reserves. Such reductions will do nothing to reduce the federal deficit.

The NAPPH strongly recommends the restructuring of the Social Security Administration as an independent agency with full responsibility for the trust funds and the Medicare program. We believe this would be the ideal situation, and that it be accomplished at the earliest possible date.

Statement of Former Congressman James Roosevelt, Chairman of the National Committee to Preserve Social Security and Medicare

The National Committee to Preserve Social Security and Medicare strongly supports the creation of an independent Social Security agency and removal of Social Security from the unified budget. We believe that such actions are necessary to get welfare out of Social Security and Social Security out of politics.

INDEPENDENT SOCIAL SECURITY AGENCY

The National Committee is dedicated to preserving the social insurance principles of Social Security and Medicare, to protecting and improving their financial soundness and benefit adequacy, and to improving their administration. We testified last summer before this Subcommittee in support of an independent Social Security agency including both Social Security and Medicare.

The establishment of an independent agency would acknowledge that Social Security and Medicare are unique federal programs because they are social insurance programs. They are essentially self-financing through the payroll tax. Beneficiaries have earned their rights to benefits based on contributions made during their working years. Today's beneficiaries and workers should feel assured that these programs, the benefits they provide and the earned right basis for eligibility, will remain stable, predictable and adequate, despite changes in government.

The National Committee strongly urges Congress to include Medicare in the new agency. Members of the National Committee view Social Security and Medicare as complimentary companion programs inextricably linked and equally important to their well-being. Even though the Medicare program is not within the jurisdiction of this Subcommittee, the exclusion of Medicare from the new agency could have a negative impact on the mission of the new agency to defend the social insurance basis of the Social Security program. Congress must reject any attempt to disengage Social Security and Medicare or to apply "means testing" or other "welfare" elements to either program. The emphasis on Medicare as a social insurance program is especially important now as the nation debates health care policy.

To make the new agency truly independent a governing board should be established. This board would be similar to the Social Security Board established in the original Social Security Act at the suggestion of the House Ways and Means Committee. Members of the board should be chosen on a bipartisan basis with overlapping terms. This would be a signal to the American people of the long-term political commitment to these programs. Members of the governing board would be free to give independent policy advice and to direct the administration of the program in the best interests of the beneficiaries.

Under the current arrangement, the commissioner of the Social Security Administration is not free to disagree publicly with the administration over administrative matters such as the disastrous implementation of the disability review process in 1982 or over policy matters such as the proposal to eliminate Social Security minimum benefits in 1981. Congress stepped in to correct these situations but Social Security's credibility was unnecessarily damaged.

Authority to appoint the commissioner of the new independent agency should be given to the governing board. The commissioner could then concentrate exclusively on the administration of the programs. By professionalizing this position, the excessive turnover from politically appointed commissioners in the last decade would be avoided.

SOCIAL SECURITY OUT OF THE UNIFIED BUDGET

Social Security is not part of the deficit problem. However, as long as Social Security is part of the unified budget, some can seductively argue that the Social Security COLA should be cut, Medicare out-of-pocket costs for the elderly increased or a means test applied to both as a way to "balance" the budget.

This argument is even more outrageous considering that Social Security is running a surplus and not contributing to the national debt, and Congress has already reduced benefits for current and future beneficiaries three times in the last nine years. The deficit is disguised, not eliminated by including Social Security in the unified budget. The government still has to pay interest on the money it borrows from the Social Security trust funds.

My father insisted that Social Security be a self-financing insurance program. Benefits and administrative expenses are paid out of the Social Security trust funds, which receive revenue from the Social Security payroll tax. Trust fund revenues cannot be used to pay for other programs, nor can the trust funds borrow money to pay benefits.

Historically, Social Security was not considered part of the unified budget because it was self-financing. Even after 1969 when Social Security was included in the unified budget, Social Security financing was considered independent of the budget. At the time of the 1983 amendments, Congress recognized that including Social Security in the unified budget only created misunderstanding about Social Security and the deficit. Consequently, Congress decided to remove Social Security from the unified budget in 1993. There is no reason why this date should not be moved forward to next year, especially in light of the confusing debate over Social Security and the deficit.

Creating an Independent Social Security Agency and removing Social Security from the unified budget would help to strengthen public confidence in Social Security and Medicare. Both issues have bipartisan support, which has always been an essential element of Social Security policy. For the 1.2 million members of the National Committee, it is as high priority.

STATEMENT BY STUART J. SWEET AND ANNE C. CANFIELD

Mr. Chairman and Members of the Subcommittee, we are pleased to have the opportunity to submit testimony on the related issues of making the Social Security Administration an independent agency and removing the Social Security trust funds from the unified budget.

We would like to commend the Subcommittee for reviewing proposals today which, in our opinion, are central to maintaining the integrity of our nation's key retirement income policy—Social Security.

As we begin, we would like to state that we are testifying as two former Senate Legislative Assistants, with over 18 years experience, who specialized in public policy issues considered by the House Ways and Means and Senate Finance Committees. Our only purpose for testifying is to bring a promising idea to the attention of the Subcommittee.

Since its birth fifty years ago, Social Security has played a dominant role in the financial planning of individuals. By providing basic protection against economic hardship during old age or disability, Social Security has saved millions of Americans from deprivation during the most vulnerable periods of their lives.

For the more fortunate, Social Security has meant reduced demands for paying benefits to the impoverished; the number of elderly or disabled individuals who would have become public charges at the federal, state, or local level would have been far greater without Social Security. In effect, many of the "near poor" have been paying for the safety net they eventually use.

Nevertheless, public confidence in Social Security is eroding at an alarming rate. Young workers in overwhelming numbers tell pollsters they do not believe future generations will honor the system established by their grandfathers. For them, contributing to Social Security increasingly takes on the characteristic of an expensive charity at a time when they are financially pressed to afford what their parents have, a home and a secure future. This feeling is fueling support for a reduction in Social Security tax rates. And those nearing retirement, or already retired, fear that their benefits may be sacrificed as part of the effort to drive federal spending and revenues closer into balance.

We need to reassure the young and the old that the federal government will honor its Social Security promises. Consequently, we believe that institutional changes are needed to insulate Social Security against harmful policy shifts adopted for unrelated budgetary purposes. We must also find a way to prove to younger workers contributing to Social Security is not a charitable activity.

Therefore, we endorse the proposals to make the Social Security Administration an independent agency and to remove the Social Security trust funds from the unified budget. These proposals reinforce the promise that Social Security exists solely to provide security for the retired and disabled. In addition, the proposals also establish new procedural impediments that will stand in the way of anyone seeking to amend the Social Security program for artificial reasons.

The need to protect the Social Security Trust Funds from outside interference will grow geometrically in the years ahead. Projections of substantial Social Security reserves are currently being made by Social Security Administration actuaries. Presently, OASDI balances total $30 billion. However, these balances are projected to soar to $1 trillion before the 21st century even if the economy grows below historic rates. By 2010, the OASDI reserve will leap to over $5 trillion, rocket ahead to $10 trillion by 2020, before peaking at $18 trillion in 2040.

These enormous reserves are required, the actuaries say, to ensure that the "baby boom" generation receives the retirement benefits it has been promised. Starting in 2030, payroll tax revenues alone will be insufficient to pay benefits. Thus, the actuaries believe we need to build a large reserve between now and 2025. That way interest earned on the reserve, plus the reserve itself will fill the gap between payroll tax revenues and expenditures between 2030 and 2060.

As the reserve grows, the temptation to invade it will be tremendous. Historically, Congress has spent previous OASDI reserves by boosting benefits. However, given the size of the upcoming reserve, expanding other federal programs, or funding new ones, is also a probability. Given the increasing unpopularity of high Social Security tax rates, Congress may also lower payroll taxes.

Any of these actions threaten the retirement security of the "baby boom" generation and their decendents. We need this "rainy day" reserve because there are excellent reasons for believing it will pour in 2030.

Ensuring that Social Security is administered independently of the political process becomes a necessity considering the potential misuse of the reserve. This underscores the wisdom of removing Social Security from the unified budget and transforming the Social Security Administration into an independent agency.

However, these reforms are not sufficient. The "rainy day" reserve will be so large that it is unwise to leave it in the hands of any federal agency, even an independent one. Therefore, we recommend that employers be required to send payroll tax receipts in excess of the amount needed to finance ongoing benefit payments to qualified private sector investment managers. Under our proposal, these managers will invest OASDI funds in excess of immediate cash needs professionally—just the way they already do for millions of Americans through pension funds. Finally, the managers will write checks to the Social Security Administration as needed to finance the "baby boom" retirement.

There is a major side benefit to this protective reform. Presently, funds in the Social Security Trust Funds may only be invested in special obligation Treasury securities. Historically, these securities have yielded rates of return well below those received by investing in the equity and corporate bond markets. By way of demonstration, the Social Security actuaries forecast that special obligation Treasury securities held by the Social Security Trust Funds will only yield a 2% real rate of return. Private pension funds, by comparison, earned a 7% real rate of return by investing in the stock market over the past fifty years.

Recently, the actuaries provided a Member of the Senate Finance Committee with an analysis of how significant such a reform will be. The difference in the size of the "rainy day" fund is shown below.

ESTIMATED OASDI INCOME AND COST, 1985-2060 BASED ON ALTERNATIVE II-B

[Current dollars in billions]

Calendar year	Current law income with ultimate 2 percent real rate of return	Proposal income with ultimate 7 percent real rate of return	Cost
1985	$199.5	$199.5	$193.2
1995	469.6	474.9	368.2
2005	953.2	1,165.1	640.3
2015	1,815.1	2,775.2	1,324.7
2025	3,085.5	6,262.2	2,790.1
2035	4,879.6	14,205.4	5,098.4
2045	7,588.0	34,313.4	8,605.0
2055	11,708.5	88,021.1	14,033.8

If our recommendations are implemented, Congress can responsibly increase Social Security benefits and cut payroll taxes without jeopardizing the retirement security of current and future retirees and the disabled. Both the old and the young will benefit handsomely. The reverse is also true. We must act now to rest the cornerstone of our national retirement system, Social Security, on solid ground. We all have a stake in building a sound pension program for Americans.

STATEMENT OF ALICIA H. MUNNELL,[1] SENIOR VICE PRESIDENT AND DIRECTOR OF RESEARCH RESERVE BANK OF BOSTON

SOCIAL SECURITY AND THE BUDGET

Recent comments about the impact of potential social security cuts on the federal budget deficit reveal considerable confusion over the role played by the trust funds in federal finance. This confusion may reflect not only the somewhat complicated interaction between social security and the rest of the federal government, but also the changes over time in the budgetary status of the social security trust funds. Until fiscal 1969, the financial activity of social security and other trust funds was reported separately from the administrative budget; after fiscal 1969, trust fund activity was integrated with other federal functions and the total reported as the unified budget. Beginning in fiscal 1993, the social security trust funds are scheduled once again to be removed from the unified budget accounting and reported separately.

This article will explore the issue of the appropriate budgetary treatment of the social security trust funds and the relevant role for the social security program in the current deficit debates. To provide some background, section one describes the interaction between social security and the rest of the federal government and summarizes the history of the changing accounting treatment of the social security trust funds. The second section measures the contribution of social security trust fund activity to the net financial status of the federal government. The third section reviews the traditional arguments for and against reporting social security separately from other federal transactions and explores the implications for this debate of the projected accumulation of substantial reserves in the social security trust funds.

Two major conclusions emerge from this analysis. First, the traditional way of measuring the impact of the social security trust funds on the unified budget deficit has significantly understated the amount by which these programs have reduced the Treasury's required borrowing from the private sector. Second, the projected unprecedented buildup of trust fund reserves adds a new and compelling argument to the arsenal of reasons for reporting the activities of the social security trust funds separately from the rest of the budget as is scheduled to occur after 1992 under current law. Moreover, the date at which this separation is slated to occur should be accelerated so that these assets, which are designed to pay for future social security benefits as the baby boom generation retires, do not distort decisions about social security or the rest of the budget.

I. THE SOCIAL SECURITY TRUST FUNDS

The first social security trust fund was created for old-age and survivors insurance (OASI) by the 1939 amendments to the Social Security Act.[2] Additional trust funds were subsequently established when disability insurance (DI) was added to the system in 1956 and when the medicare programs were enacted in 1965.[3] Because social security has been financed on approximately a pay-as-you-go basis, the trust funds have been used to provide a buffer against brief unanticipated economic fluctuations, rather than to build up large earnings reserves to pay a substantial portion of future benefits. The dedicated payroll taxes, which finance social security's retirement, disability and hospital insurance (HI) programs, are transferred from the Treasury's general fund, where they are received, to the respective social security trust funds, where they are used to pay benefits and cover administrative expenses.[4] To the extent that social security income exceeds outgo, trust fund surpluses are invested in debt obligations of the federal government, and the interest earned on accumulated assets provides an additional source of income to the trust funds.

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[1] Senior Vice President and Director of Research, Federal Reserve Bank of Boston. The author would like to thank Robert M. Ball, Robert J. Myers, colleagues at the Boston Fed, and particularly, David Koitz of the Congressional Research Service, for useful comments. Lynn E. Blais provided able research assistance.

[2] Before 1940, social security was financed through a special "Old-Age Reserve Account" in the Treasury. Appropriations were made to this account from payroll tax revenues received by the Treasury net of administrative expenses. After the social security program was declared constitutional in 1937, it was no longer necessary to maintain an implicit separation between the tax and benefit activities. As a result, the 1938 Advisory Council advocated the establishment of a trust fund for the OASI program, which would receive automatic appropriations from the Treasury. This recommendation was adopted in the 1939 amendments.

[3] Medicare is composed of two parts—hospital insurance (HI), which pays for inpatient hospital care, limited stays in skilled nursing facilities, and home health services, and supplementary medical insurance (SMI), which pays for physicians' and hospital outpatient services. The programs are financed through separate trust funds, each with a distinct source of revenue. Hospital insurance is financed by earmarked payroll taxes in a manner similar to the OASI and DI programs. SMI derives its income from premiums paid by participants and from general revenues. Hence, SMI will be excluded from the definitions of medicare and social security as they are used throughout this article.

From the inception of the social security program until 1969, the most commonly used concept of federal government finances, the administrative budget, did not include the operations of the federal trust funds such as OASI, DI, medicare, highway, unemployment and others. Historically, these funds were shown separately because they had their own dedicated revenues. A consolidated cash statement, which included trust fund transactions, was published but received little attention. A third measure of government finances, the federal sector of the national income accounts published by the Department of Commerce, also included trust fund activity but was not the focus of annual budget deliberations.[5]

The turning point came in 1967 when the first time the President emphasized the spending and deficit fugures from the consolidated cash budget and the national income accounts as well as the traditional administrative budget. The Administration particularly highlighted the national income accounts, arguing the economists preferred this measure to gauge the impact of government spending on the economy. Republicans charged, however, that the President's enthusiasm for the national income accounts figures sprang less from their relevance for economic analysis than from the fact that they showed the lowest deficit of the three budget concepts (table 1).[6]

With newspapers and wire services having three sets of budget totals to pick from, all published in the budget document and all discussed and explained during extensive news conferences, the result was a rash of conflicting headlines. "The New York Times" and "The Washington Post" featured the national income accounts figures, following the Administration's lead.

TABLE 1.—RECEIPTS, OUTLAYS AND DEFICITS UNDER ALTERNATIVE BUDGET CONCEPTS, FISCAL YEAR 1967

[In billions of dollars]

Budget concept	Receipts	Outlays	Deficit
National income accounts	167.1	169.2	2.1
Consolidated cash budget	168.1	172.4	4.3
Administrative budget	126.9	135.0	8.1

Source: "Shaping a Simpler Budget," reprinted from "Business Week," August 5, 1967, in James W. Davis, Jr., ed., "Politics, Programs, and Budgets" (Prentice-Hall, 1969), pp. 18–21.

United Press International led its story with the consolidated cash budget. The Associated Press stressed the administrative budget.

In an attempt to avoid such confusion in the future, President Johnson created the President's Commission on Budget Concepts in March 1967. The Commission issued its report in the fall of that year recommending that a unified summary statement be used to replace the three competing and confusing budget concepts.[7] This approach meant that the financial operations of the various federal trust funds would be shown together with those of other government programs in a single budget. Since the recommendations were unanimous and no legislation was required to implement the change, the first so-called unified budget was presented for fiscal year 1969. The effect in that year of including the social security trust funds was to transform a $1 billion deficit into a $3 billion surplus.

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[4] As a result of the 1983 Amendments to the Social Security Act, the Treasury began transferring the estimated amount of each month's payroll tax receipts to the OASI, DI and HI trust funds at the beginning of the month. Before this legislation, payroll tax receipts were transferred to the trust funds as they were received. The Deficit Reduction Act of 1984 reinstated the traditional practice for the HI trust fund, although the OASI and DI will continue to receive transfers on the first day of the month.

[5] For more detail about these alternative budget concepts, see "The Budget of the United States Government, Fiscal Year 1969" (GPO, 1968), Special Analysis A, pp. 464-472.

[6] See "Shaping a Simpler Budget," reprinted from "Business Week," August 5, 1967, and Eileen Shanahan, "Major Revisions in Budget Asked to End Confusion," reprinted from "The New York Times," October 8, 1967, both in James W. Davis, Jr., ed., "Politics, Programs, and Budgets" (Prentice-Hall 1969), pp. 18-27.

[7] Report of the "President's Commission on Budget Concepts" (GPO, 1967).

Congress subsequently gave its implicit approval to the unified budget in the Congressional Budget and Impoundment Control Act of 1974. This legislation established procedures for Congress to develop federal budgets independently of the President. By including the activities of the federally administered trust funds in the scope of the programs to be covered by the new procedures, Congress implicitly endorsed a comprehensive budget concept.[8]

Debate over the budget concepts subsided until February 1981 when the Administration proposed several cuts in social security benefits as part of its first budget proposal. Most of these proposals were subsequently included as part of the Omnibus Budget Reconciliation Act of 1981, which was signed into law on August 13, 1981. The social security minimum benefit, student benefit, lump-sum death benefit, as well as a number of other existing benefit provisions, were eliminated or severely restricted by the passage of that legislation.

In May 1981, the Administration announced a significantly more dramatic package of benefit reductions for the OASDI programs. The proposals were wide-ranging, but the ones that would have had the largest and most immediate effect included: reducing the early retirement benefit from 80 percent to 55 percent of the full benefit beginning in 1982; adjusting the benefit formula for only one-half the wage growth during the period 1982-87 so that benefits would decline as a percent of pre-retirement earnings; and making disability determinations solely on the basis of medical considerations, rather than on a combination of medical and vocational factors. The fact that these proposals were projected to reduce long-run costs by 57 percent more than the Social Security Trustees' estimate of the projected long-run deficit fueled suspicion that OASDI financing problems were being used as an excuse to cut back on social security as a means of restoring balance to the unified budget.[9]

In response to the perceived dangers to the social security program, numerous attempts were made in Congress either to make social security and medicare more visible within the unified budget or to remove them altogether from the budgetary process. Senators Eagleton and Stennis introduced an amendment to the Economic Recovery Tax Act of 1981 that would have required the financial projections and assumptions for OASDI and medicare to be displayed more prominently in the unified budget. The amendment was passed by the Senate, but dropped in conference. Senator Eagleton reintroduced the proposal in connection with legislation that culminated in the Social Security Amendments of 1981.[10] Again the amendment was passed by the Senate, but dropped in conference.

Members of Congress continued to worry that the large deficits in the unified budget would spark further efforts to cut back on social security. The tension reached a crescendo in May 1982 when the Senate Budget Committee included $40 billion of "unspecified" changes in social security as part of a plan to reduce the budget deficit over the next three years. The Committee did not specify whether the reduction would come from benefit cuts or tax increases, but did say that it was the expected outcome of recommendations due later in the year from the National Commission on Social Security Reform, the group that had been appointed by the President and Congress to resolve social security's immediate and long-term financing problems. This effort to force further social security changes in order to reduce the budget deficit was met with such strong opposition that the proposal was promptly dropped and the matter never came to a vote in the Senate.

Finally, the National Commission on Social Security Reform considered the issue of the appropriate relationship between social security and the rest of the government's financial activities. The Commission concluded in its 1983 report that the trust funds should be removed from the unified budget and this proposal was included in the Social Security Amendments of 1983.[11]

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[8] For a complete legislative history of the budgetary treatment of the social security trust funds, see David Koitz, "Social Security and the Unified Budget" (Congressional Research Service, March 1984, mimeo, pp. CRS-5/CRS-10. The following discussion draws very heavily on Koitz' study.

[9] The Administration's May 1981 proposals would have reduced long-run costs under the central "Alternative II-B" assumptions by 2.86 percent of taxable payrolls. Most of the reduction would have come from adjusting the benefit formula for only 50 percent of wage growth (1.30 percent) and from lowering early retirement benefits (0.85 percent). The long-run deficit in the OASDI program as reported by the system's Board of Trustees in April of 1981 under the same set of assumptions amounted to only 1.82 percent of taxable payrolls. Hence, the proposed reductions of 2.86 percent exceeded the projected deficit of 1.82 percent by 1.04 percent of taxable payrolls.

[10] The major provisions of the 1981 Amendments were the introduction of interfund borrowing among the social security and hospital insurance trust funds and the restoration of the minimum benefit for current beneficiaries.

As the law now stands, social security and medicare are to be displayed more prominently in the budget until fiscal 1992—that is, shown in a separate numbered account rather than as subcategories of income security and health—and then social security and hospital insurance are to be removed completely from the budget beginning in fiscal 1993. (Supplementary medical insurance, which is financed by premiums and general revenues rather than by earmarked payroll taxes, would remain part of the budget but would be shown as a separate major category.)

II. EFFECT OF SOCIAL SECURITY TRUST FUNDS ON THE BUDGET

Regardless of how the social security trust funds are reported, their receipts and outlays have a significant impact on the overall financial status of the federal government and on the demands of the Treasury in the private credit markets. Measuring the impact would be a straightforward and noncontroversial exercise if trust fund revenues consisted only of payroll tax receipts and outlays consisted only of benefit payments and administrative expenses; then federal fiscal activities could be summarized by two separate and distinct accounts—one presenting the receipts and outlays of the social security trust funds and one showing the financial transactions for the rest of the government. In this setting, the excess of social security tax receipts over benefit payments and administrative expenses would be the appropriate measure of the trust funds' contribution to the rest of the federal budget.

In reality, however, interpreting the impact of social security on the federal budget is complicated by numerous intragovernmental transactions between the trust funds and the Treasury. A picture of the federal government's financial activities for fiscal 1986 is presented in table 2, which shows that in addition to $256 billion of earmarked payroll taxes and other contributions, the OASDHI trust funds will receive $18 billion in intragovernmental transfers from the Treasury. These transfers consist primarily of interest paid on the trust funds' holdings of outstanding government debt and contributions paid by the federal government in its role as an employer. During the same period, the trust funds will transfer $1 billion to the Treasury to cover interest on "normalized" or advance tax transfers from the Treasury.

TABLE 2.—SOCIAL SECURITY, OTHER FEDERAL PROGRAMS, AND THE UNIFIED BUDGET, FISCAL YEAR 1986 [1]

[In billions of dollars]

Item	Social Security	Other Federal programs	Unified budget
Receipts	274	539	794
Direct receipts	256	538	794
Intragovernmental receipts	18	1	
Outlays	251	742	974
Direct outlays	250	724	974
Intragovernmental outlays	1	18	
Surplus or deficit	+23	−203	−180

[1] Social security includes the old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI) trust funds.

Sources: "1985 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 1985 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund; Historical Tables, Budget of the United States Government, Fiscal Year 1986" (GPO, 1985); and "Appendix, Budget of the United States Government, Fiscal Year 1986" (GPO, 1985).

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[11] A majority of the members of the National Commission recommended that the OASI, DI, HI, and SMI trust funds be removed totally from the budget. A modified version of this recommendation, which called for the OASI, DI, HI and SMI trust funds to be displayed more prominently in the unified budget until fiscal 1988 and then for the OASI, DI, and HI trust funds to be removed totally from the budget process thereafter, was incorporated into the social security legislation that passed the House in March 1983. The final version of the bill, which delayed the date for taking social security out of the budget until fiscal 1993, represented a compromise between the House and the Senate. For further information, see "Report of the National Commission on Social Security Reform" (GPO, January 1983), pp. 2-24 and 2-25; and John A. Svahn and Mary Ross, "Social Security Amendments of 1983. Legislative History and Summary of Provisions," "Social Security Bulletin," Vol. 46, July 1983, pp. 3-48.

Since most of the intragovernmental transfers are netted out when the trust fund accounts and other federal accounts are consolidated into the unified budget, most analysts evaluate the contribution of the social security trust funds to federal finances as simply the difference between the direct receipts and outlays of the trust funds. For example, both the Social Security Administration and the Congressional Research Service calculate social security's fiscal 1986 contribution to the unified budget as the difference between receipts of $256 billion and outlays of $250 billion.[12] Thus, according to the conventional analysis, in 1986 the OASDHI trust funds are projected to reduce the unified budget deficit by $6 billion.

While direct receipts and outlays are the relevant numbers for constructing the unified budget, they do not provide the correct answer to the question whether the deficit in the rest of the federal budget would have been larger or smaller without the activity of the social security trust funds.

The clearest example of why the intragovernmental revenues and outlays should be included along with the direct activities of the trust funds is the case of interest payments from the Treasury to social security on the trust funds' holdings of government debt, which will amount to $7 billion in fiscal 1986 (table 3). The crux of the issue is whether this payment is simply a transfer among different sectors of the federal government that would not occur in the absence of social security or an outlay that would have to be paid to the public if it were not paid to the trust funds.

TABLE 3.—SOCIAL SECURITY RECEIPTS AND OUTLAYS, FISCAL YEAR 1986

[In billions of dollars]

	OASI	DI	HI	Total
Receipts	197.8	19.0	56.9	273.7
Direct receipts	186.3	17.8	51.5	255.6
Payroll taxes	182.5	17.5	51.5	251.5
Income from taxation of benefits	3.8	0.3	(1)	4.1
Intragovernmental receipts	11.5	1.2	5.4	18.1
Interest	3.8	0.5	2.9	7.2
Employer contributions made by the Federal Government	2.5	0.2	1.3	4.0
Contributions for military wage credits	3.5	0.3	0.1	3.9
Other intragovernmental receipts [2]	1.7	0.2	1.1	3.0
Outlays	182.4	20.5	48.1	251.0
Direct outlays	181.7	20.4	47.8	249.9
Benefit payments	177.9	19.5	47.1	244.5
Administrative expenses	1.7	0.8	0.7	3.2
Payments to railroad retirement account [3]	[4] 2.1	0.1	(4)	2.2
Intragovernmental outlays [5]	0.7	0.1	0.3	1.1
Surplus or deficit	+15.4	−1.5	+8.8	+22.7

[1] N.A. Not applicable.

[2] Includes reimbursements for uninsured persons receiving OASDHI benefits and income tax credits allowed against payroll tax contributions. These credits will be eliminated after 1989.

[3] Although payments from OASDI to the Railroad Retirement Account are technically intragovernmental transfers, they are traditionally included as direct outlays of the federal government because they represent reimbursement for benefits paid by the Railroad Retirement Board to private citizens.

[4] The HI trust fund received a payment of $0.3 billion from the Railroad Retirement Account in 1986. This amount is netted out of OASI transfers to the Railroad Retirement Account.

[5] Intragovernmental outlays consist primarily of interest on normalized tax transfers.

Sources: "1985 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds; 1985 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund; Historical Tables, Budget of the United States Government, Fiscal Year 1986" (GPO, 1985); and "Appendix, Budget of the United States Government, Fiscal Year 1986" (GPO, 1985), pp. I-K30, I-K39 and I-K40.

In resolving this issue, it is important to remember that the assets in the trust fund reflect past trust fund surpluses. When in earlier years trust fund revenues exceeded the amount needed to pay benefits and administrative expenses, this excess was loaned to the Treasury in order to cover expenses in the rest of the budget. If it is assumed that these deficits in the general fund would have occurred without the surplus in the trust funds, then the government would have had to look to the private sector rather than to the social sucurity system to cover the shortfall.[13] Under this scenario, the Treasury would have to pay the interest to the private holders of the government debt rather than to the trust funds. In other words, interest payments from the general fund to the OASDHI trust funds are an inescapable financial commitment that directly reflects previous deficits in the non-social security portion of the federal budget; the fact that some of the debt is held by the social security system reduces the size of the unified budget deficit and the financial demands of the federal government on the private economy. Therefore, the social security trust funds' effect on federal finances should be calculated including interest received on trust fund assets and not just on the basis of the direct sources of revenue. The rationale for including the other components of the intergovernmental transactions in the same manner is summarized in appendix A. With these amounts included, the surplus or deficit in the trust funds becomes the relevant measure of the social security system's contributon to the unified budget deficit. Hence, in fiscal 1986 the social security system will reduce the unified budget deficit by $23 billion.

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[12] See Koitz, "Social Security and the Unified Budget," pp. CRS-19 to CRS-21 and U.S. Social Security Administration, Office of the Actuary, Steven F. McKay, "Comparison of Trust-Fund Accounting Versus Unified-Budget Accounting," February 7, 1985, Memorandum.

Chart 1 shows, from the beginning of the program in 1937 to the present, the net financial position of the combined OASDHI trust funds using the alternative definitions of revenues and outlays discussed above. The preferred measure, which includes intragovernmental transactions, indicates that the social security system has run annual surpluses in 39 of the last 49 years. Over the same period, the non-social security portion of the federal budget ran deficits in 43 years; in 31 of the 43 deficit years social security surpluses reduced the size of the shortfall and in two of the 43 years, 1949 and 1969, the excess of revenues over outlays in the social security trust funds more than offset the deficit in the rest of the budget to produce an overall surplus in the unified accounts. In total, the social security trust funds have reduced the deficit or increased the suplus in the general fund in all but 10 of the last 49 years (chart 2 and the underlying budget data presented in appendix B). Stated another way, over the entire 49-year span, total social security revenues of $2,238 billion have exceeded outlays of $2,180, billion, to produce $58 billion of OASDHI assets at the end of fiscal 1985.

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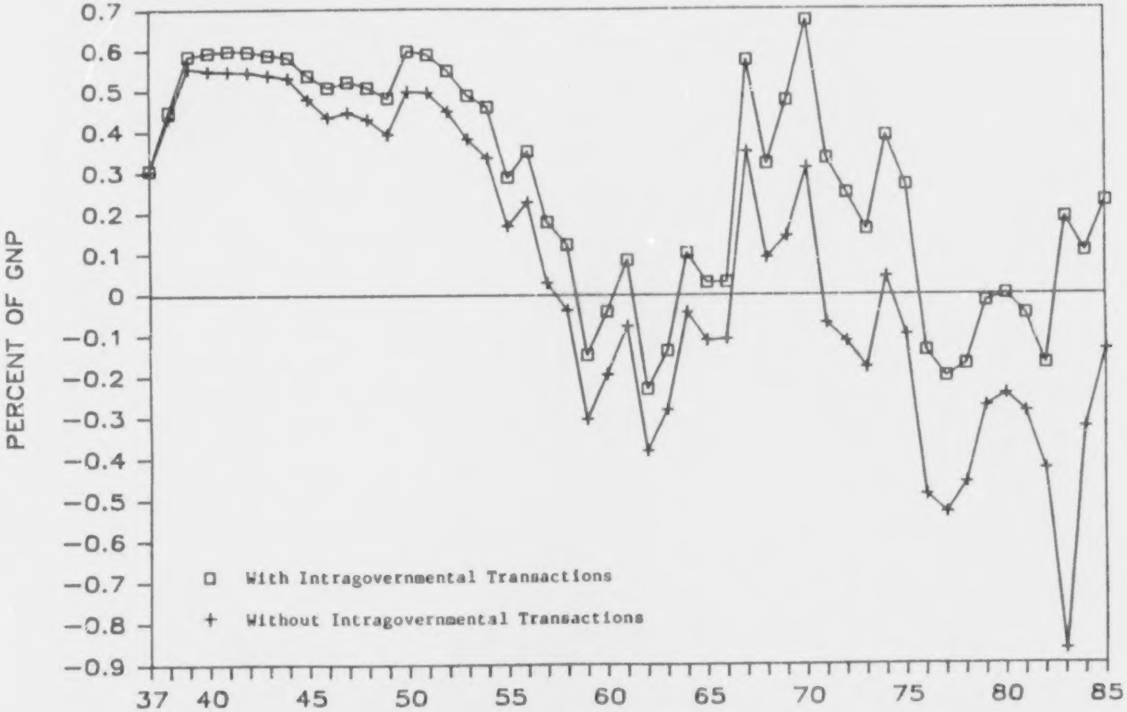
[13] David Koitz of the Congressional Research Service argues that the weakness with the proposed approach is the assumption that other federal spending and income decisions were developed in isolation from the financial operations of the social security programs. He questions whether the New Deal spending policies in the late 1930s ignored the receipts flowing into the social security program or whether World War II taxation policy would have been the same without the surpluses in the social security trust funds. Koitz concludes that the social security program has had a threefold effect on government finances; the surpluses have not only reduced government borrowing in the private sector as argued in this article, but they have also allowed non-social security taxes to be somewhat lower and permitted spending to be somewhat higher than they otherwise would have been. Since it is impossible to know the relative magnitude of each of these effects, Koitz believes that focusing on the direct activities of the trust funds provides a more reliable indicator of the program's impact on the unified budget. These views were expressed in a detailed response to an earlier draft of this article.

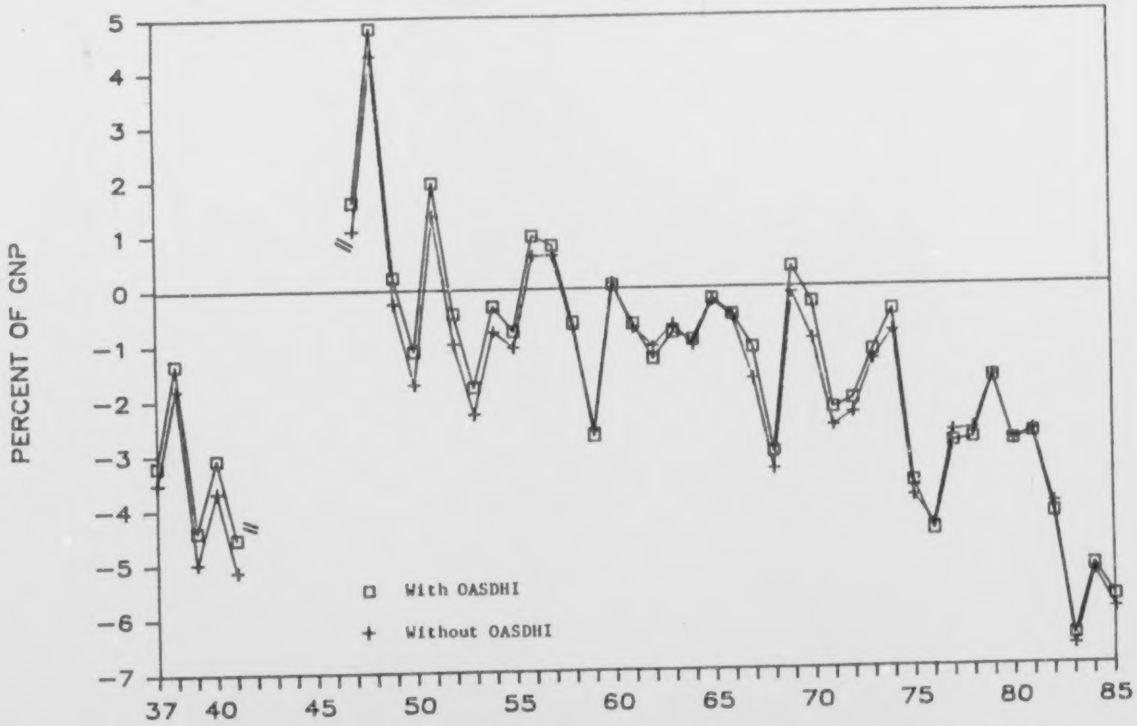
Chart 1. Social Security Deficits and Surpluses with and without Intragovernmental Transactions, Fiscal 1937-1985[a]



[a]Social security includes the old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI) trust funds.

Source: Historical Tables, Budget of the United States Government, Fiscal Year 1986 (GPO, 1985), Table 13.3, pp. 13.3(1)-13.3(29).

Chart 2. Federal Budget Deficits and Surpluses with and without Social Security, Fiscal 1937-1985[a]



[a]Social security includes the old-age and survivors insurance (OASI), disability insurance (DI) and hospital insurance (HI) trust funds. In order to preserve the detail, the large deficits experienced in 1942-46 have been excluded from the chart. These deficits reached as low as -31 percent of GNP in 1943.

Sources: Historical Tables, Budget of the United States Government, Fiscal Year, 1986 (GPO, 1985), Tables 1.1 and 13.3, pp. 1.1(1)-1.1(2) and 13.3(1)-13.3(29) and author's calculations.

III. ARGUMENTS FOR AND AGAINST INCLUSION IN A UNIFIED BUDGET

Since social security trust fund transactions can alter the budget picture, it is important to consider whether Congress and the public should be provided with a single unified budget or with a presentation that separates the transactions of these trust funds from the rest of government activity.[14] This question is more than just an issue of accounting. For while it is true that the impact on the economy of any given level of trust funds and other government activity will be the same regardless of how the numbers are reported, policymakers may well be affected by the form of the reporting and hence the reporting itself may ultimately influence the level of government activity.

Since the 1967 President's Commission on Budget Concepts is responsible for the current system of comprehensive accounting, it is an obvious place to look for the arguments in favor of including the social security trust funds in a unified budget. The main arguments for comprehensiveness, which permeate all the Commission documents, are the desire to eliminate the confusion associated with three competing budget concepts and to construct a budget that provides an aggregate measure of the impact of the federal sector on the economy. In addition, the staff paper on budget coverage cited four specific reasons why the trust funds should be included in the budget concept.[15] First, even though the social security programs do not require annual appropriations, Congress is responsible for legislating tax rates and benefit formulas and changes in these provisions are made almost every year. Second, the government is ultimately responsible for assuring the financial solvency of these programs. Third, excluding the trust funds will distort priorities, since these programs receive more generous financing and less year-to-year scrutiny than programs included in the administrative budget. Finally, allowing emphasis to be placed in a budget that excludes the trust funds creates an incentive to invent new trust funds in order to reduce totals in the administrative budget.

The Commission's most convincing point is that policymakers need some aggregate measure of federal budget activity in order to assess the potential impact of total government spending and taxing on the economy. Excluding social security from this measure makes no sense, since the retirement disability, and hospital insurance programs currently account for 25 percent of annual federal outlays and 34 percent of federal tax revenues.

Satisfying the need for a comprehensive budget figure for economic analysis does not mean, however, that the social security trust funds must be included in the annual budget considered by Congress. The federal sector national income and product accounts are published quarterly and offer a very comprehensive picture of federal government transactions. Moreover, because this concept presents government fiscal transactions on an accrual rather than a cash basis, it offers the most useful measure of the impact of the federal sector on the economy. Economists and others will continue to use this concept in their efforts to assess alternative fiscal scenarios, regardless of whether or not the social security trust funds are included in the totals of the annual budget document.

The argument that social security must be in the budget document because Congress is required to adjust the benefit and tax schedules on almost an annual basis is no longer relevant. The nature of the cash benefits programs has changed dramatically since the time of the Commission's report, when frequent adjustments were required on both the tax and benefit sides of the program in order to keep the provisions up to date with increases in prices and real wages. The 1972 Social Security Amendments introduced automatic cost-of-living adjustments for social security benefits and automatic increases in the maximum amount of earnings counted for benefit and contribution purposes to reflect rising average wages. There automatic adjustments combined with provisions in the 1977 Amendment produced a system under which benefits as a percentage of preretirement earnings will remain constant over time. On the financing side, as a result of the 1983 Amendments, revenues are projected to be sufficient to cover outlays for the next 75 years, according to the intermediate economic and demographic assumptions of the Social Security Trustees. In short, in the absence of unforeseen events, Congress should have no need to adjust either OASDI benefit or tax schedules for a long time.

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[14] The main arguments for and against including social security in the federal budget are summarized in Koitz, "Social Security and the Unified Budget." For further discussion, see Robert M. Ball, "Social Security Today and Tomorrow" (Columbia University Press, 1978), pp. 308–310; "Social Security in America's Future: Final Report, National Commmission on Social Security" (GPO, March 1981), pp. 306–307 and 356–358; Robert J. Myers, "Inclusion of Operations of Social Security and Medicare Trust Funds in the Unified Budget," Memorandum No. 53, National Commission on Social Security Reform, September 1982, mimeo; and "Report of the National Commission on Social Security Reform," pp. 2-24 and 2-25.

[15] Staff paper, "Coverage of the Budget," in President's Commission on Budget Concepts, "Staff Papers and Other Materials Reviewed by the President's Commission" (GPO, 1967), pp. 161–169.

The case for excluding social security from the unified budget rests on the nature of the retirement, disability, and hospital insurance programs. These programs are self-supporting, financed by dedicated payroll taxes and other contributions, and hence, should not be pitted against other programs that must compete for scarce general revenues. The purpose of the annual budget is to make choices among expenditures, giving preference in the budget period to one type of program over another and deciding how these annual expenditures are to be financed. Social security benefits, based on past earnings, and stretching into the distant future with their own source of financing, are not an appropriate part of this competitive process.

Moreover, the social security program embodies a moral, if not a legal, commitment to maintain the level of promised benefits.[16] Firms design supplementary pension plan provisions and individuals make irreversible lifetime decisions on the basis of an expected level of social security protection. Any changes in these promised benefit levels should be made gradually over a long period of time in order to give businesses and individuals an opportunity to revise their plans. Proponents of separate reporting conclude that the temptation to change social security benefits abruptly to accommodate other federal tax or spending decisions is significantly reduced if social security is not part of the unified budget.

In addition to these conventional arguments, the projected emergence of large surpluses in the social security trust funds provides new reasons to report the financial status of the social security system separately from the rest of federal receipts and expenditures. According to the Office of the Actuary of the Social Security Administration, the surpluses in the three social security trust funds should total $483.0 billion over the next 10 years (table 4). In the longer run, the current OASDI financing scheme calls for the buildup of trust fund reserves to continue for the next 35 years, which will produce trust fund balances equal to nearly 27 percent of GNP by 2020.[17] These accumulated reserves are then scheduled to be drawn down to cover annual deficits after 2020. As shown in chart 3, the projected annual surpluses are considerably larger and more persistent than anything experienced in the past, and the way in which they are reported could have a significant impact on the level of government taxing and spending in coming years.

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[16] The United States Supreme Court in 1960 (Flemming v. Nestor, 363 US 603, 1960) said that "The social security system may be accurately described as a form of social insurance, enacted pursuant to Congress' power to spend money in aid of the 'general welfare.'" However, the Court went on to say that the rights of a beneficiary "cannot be soundly analogized to that of a holder of an annuity whose right to benefits is bottomed on his contractual premium payments." The result of the decision was to uphold Congress' right to change provisions of the law in such a way to adversely affect the rights of individuals as long as the change was reasonable overall.

[17] The precise date at which the accumulation ceases and the drawing down of assets begins can be defined in three ways. In nominal terms, even though outlays exceed tax income after 2015, fund assets continue to grow until 2030 as a result of interest income and the drawing down of trust fund assets occurs after 2030. If income and outlays are expressed in constant dollars or as a percent of GNP, then interest enables the fund to continue growing for only five years after outlays exceed tax income and the value of fund assets declines after 2020. Since the size of the trust fund relative to GNP offers the most relevant indicator of the impact of trust fund behavior on the economy, this measure will be used in the following discussion. For the data underlying these figures, see U.S. Social Security Administration, Office of the Actuary, Harry C. Ballantyne, A.S.A., *Long-Range Estimate of Social Security Trust Fund Operations in Dollars*, Actuarial Note 125, May 1985.

TABLE 4.—PROJECTED SOCIAL SECURITY SURPLUSES, FISCAL YEARS 1985–94 [1]

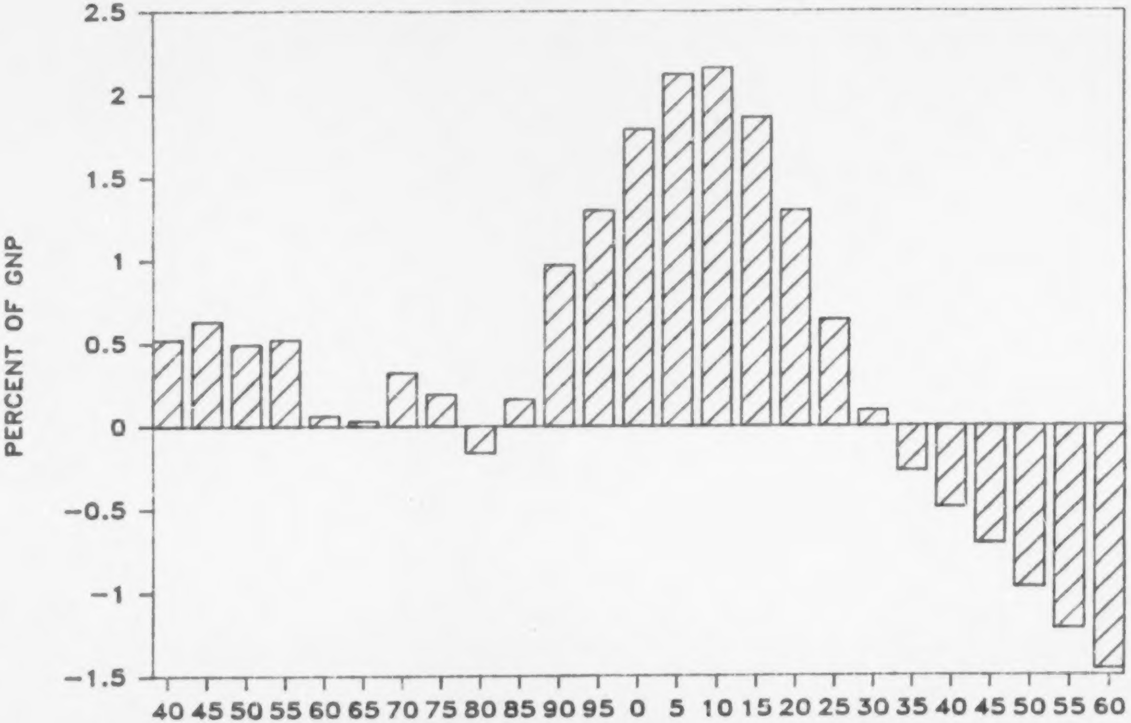
[In billions of dollars]

Fiscal year	OASDI			HI	Total
	OASI	DI	Total		
1985	4.2	.05	4.7	3.9	8.7
1986	3.9	1.0	5.0	12.9	17.8
1987	9.3	−1.0	8.4	15.0	23.3
1988	29.6	0.3	29.9	9.3	39.2
1989	37.9	1.0	38.9	8.0	46.9
1990	46.6	4.0	50.6	6.7	57.3
1991	54.4	5.8	60.3	4.3	64.6
1992	59.7	6.5	66.2	1.2	67.4
1993	69.8	7.5	77.3	−1.5	75.8
1994	78.8	8.3	87.1	−5.2	81.9
1985–94	394.2	33.9	428.4	54.6	483.0

[1] These projections are based on the intermediate (Alternative II-B) set of economic and demographic assumptions in the 1985 Trustees' Report. This alternative assumes that the average annual unemployment rate will decline steadily from 6.9 percent to 5.9 percent between 1985 and 1994 and that the real earnings differential will average 1.2 percent during this period.

Source: U.S. Social Security Administration, Office of the Actuary, Steven F. McKay, "Estimated Short-Range Operations of the OASI, DI and HI Trust Funds on the Basis of the 1985 Trustees' Report Assumptions," April 8, 1985, Memorandum, Table 8.

Chart 3. Average Annual Deficits and Surpluses in the Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Fiscal 1937-2060[a]



[a] Figures for 1940-1980 represent the average of the annual surplus or deficit in the OASDI trust funds over the preceding five years. Figures for 1985-2060 are annual figures projected under alternative assumption II-B, 1985 OASDI Trustees' Report.

Source: Social Security Administration, Office of the Actuary, Harry C. Ballantyne, A.S.A., Long-Range Estimates of Social Security Trust Fund Operations in Dollars, Actuarial Note 125 (May 1985).

The first issue associated with the enormous trust fund buildup is one of fiscal discipline. If the social security trust funds remain part of the unified budget, so that the large surpluses projected for the next 35 years are reported in a manner that make them appear available to finance general expenditures, they could reduce incentives to constrain costs in the non-social security portion of the federal budget. That is, by taking the pressure off Congress to carefully scrutinize the merits of alternative spending proposals, the social security surpluses could encourage the financing of marginal projects and produce a higher level of total government spending than would have otherwise occurred.

The second issue is related to the foregoing question of fiscal discipline but involves some longer-run considerations. These pertain to the OASDI financing arrangements over the next 75 years, which call for the accumulation of large reserves that are scheduled to be drawn down to finance annual social security deficits as the baby boom generation retires.[18] This is not the place to discuss the merits of the proposed funding plan, but simply to point out that for the social security surpluses to produce a net positive accumulation of resources at the federal level, they must not be offset by deficits in the non-social security portion of the budget.[19]

If the payroll taxes earmarked to pay future retirement and disability benefits are used to cover current outlays from the general fund, then the government debt held by the trust funds will be nothing more than paper claims. When the baby boom generation retires after the turn of the century, the trust funds will redeem their claims on the Treasury in order to pay promised benefits. The Treasury, however, will not have accumulated resources to meet its obligations, but rather will be forced to raise taxes at that time to pay off its debts. Thus, the full burden of supporting the beneficiaries will come from the future taxpayers—just as if the system had been financed on a pay-as-you-go basis all along. In this event, the only accomplishment of the proposed OASDI funding plan would be to shift the composition of federal revenues over time—with payroll tax receipts financing general government expenditures during the period of social security accumulation and general revenues financing social security benefits when trust fund assets are redeemed during the period of decumulation. The best chance for the buildup of reserves in the trust fund to produce real government saving that can then be used to finance future benefits is to report social security trust fund activity separately from the rest of the federal budget, so that OASDI taxes do not appear available for general spending purposes.

IV. CONCLUSION

The possible distorting effects of the large projected trust fund surpluses, the fact that the programs are self-financed with earmarked taxes and represent a moral commitment to continue to pay the benefits upon which people have made irreversible lifetime decisions constitute compelling arguments for treating social security differently from other government programs. Social security should not be subject to annual Congressional review where changes are proposed merely to accommodate other non-social security budgetary decisions, nor should social security's projected buildup of reserves be appropriated for current non-social security expenditures.

Removing social security from the unified budget does not mean that Congress relinguishes control over the program. Rather, it should merely reduce the likelihood that changes are proposed solely in response to short-run budgetary pressures, rather than in the interests of sustaining the nation's retirement income system. In short, reporting social security separately from other federal programs should lead to more rational decisionmaking, and, with the advent of large trust fund surpluses, the sooner the separation occurs the less chance for social security to distort other federal fiscal decisions or for other federal decisions to thwart social security's long-run financing plan.[20]

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[18] It seems fair to say that Congress did not deliberately seek to have the system accumulate reserves, but rather this development was the largely inadvertent product of a 1977 plan to restore financial solvency to the program over a 75-year period and a minor modification of that plan contained in the 1983 amendments. These amendments produced the accumulation by accelerating a scheduled 2011 tax rate increase to 1988 and 1990, so that taxes are raised just as social security costs relative to taxable payroll are slated to decline.

[19] For a detailed discussion of the possible implications of accumulating large social security surpluses, see Alicia H. Munnell and Lynn E. Blais, "Do We Want Large Social Security Surpluses?" New England Economic Review, September/October 1984, pp. 5–21.

[20] A bill (S. 724) that would accelerate the removal of the OASDHI trust funds from the federal budget process was introduced on March 20, 1985 by Senators Paula Hawkins, Daniel Moyni-

Continued

Appendix A

Rationale for Treating Intragovernmental Transactions Between the Social Security Trust Funds and the Treasury as Direct Receipts and Outlays of the Federal Government

In addition to interest on their holdings of government debt, the social security trust funds receive transfers from the Treasury to cover payroll tax contributions from the federal government in its role as an employer, noncontributory wage credits for military service, and a few miscellaneous items. On the expenditure side, the trust funds transfer to the Treasury payments to the Railroad Retirement Account and interest on normalized tax transfers. This appendix provides the rationale for treating these intragovernmental transactions as receipts and outlays of the federal government when assessing the contribution of the OASDHI trust funds to the unified budget.

I. INTRAGOVERNMENTAL RECEIPTS

(a) Employer contributions made by the federal government: All temporary federal employees have been covered under OASDHI since 1951, and all military personnel have been similarly covered since 1957. In 1982, HI coverage was extended to all federal employees. As a result of the Social Security Amendments of 1983, all federal workers hired after 1983 will be covered by OASDI in addition to HI. These federal workers and their employer pay OASDHI taxes at the same rate as private sector participants in order to qualify for future social security benefits. Hence, the government must make periodic transfers to the OASDHI trust funds in an amount equal to the employer's share of the payroll taxes owed on its employees' covered wages.

As a result of the extension of social security coverage to newly hired federal employees, Congress is currently exploring options for redesigning the Civil Service Retirement System (CSRS) to incorporate the costs and benefits of this coverage. In response to a Congressional request, the Congressional Research Service developed five alternative designs for the new plan, each structured to maintain the total employer normal cost of the entire retirement program (including the cost of social security coverage) at its current level.[1] All five of the proposals require lower CSRS contributions and benefits for the newly covered workers than those provided for federal employees not covered by social security. Thus, payroll taxes paid by the federal government to the OASDHI trust funds represent an inescapable portion of the cost of employing federal workers. Since the Treasury would have had to finance accruing benefit obligations through the CSRS in the absence of social security coverage, these transfers should be included with the direct activities of the trust funds when assessing the impact of OASDHI on federal finances.

(b) Contributions for military wage credits: Members of the armed forces have been regular contributing members of the social security system since 1957; before that time, various special provisions provided for gratuitous wage credits that entitled military personnel to benefits and, in particular cases, entitled their survivors to survivors' benefits. Current members of the armed forces pay regular payroll taxes on earnings and, in addition, are given noncontributory wage credits for each quarter of military employment after 1956. These credits, in effect, raise the average monthly earnings used in the computation of monthly and lump-sum retirement payments by taking into account up to $300 per quarter of remuneration in kind.

Until 1983, payments from the Treasury to the trust funds to finance noncontributory military wage credits were made as the benefits became due. The Treasury transferred annual level payments, amortized to 2015, to the trust funds to finance current benefit obligations arising from noncontributory credits for service before 1957. In addition, the Treasury made annual variable payments to cover the current cost of benefits and administrative expenses arising from such credits granted after 1956.

The 1983 Social Security Amendments changed the financing basis of all noncontributory age credits for military service. In May 1983, the existing amortized pay-

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han and Donald Riegle. Under this legislation, which is currently pending before the Committee on the Budget and the Committee on Governmental Affairs of the United States Senate, the social security trust funds would be reported separately from the rest of the federal budget beginning in fiscal 1987.

[1] "Designing a Retirement System for Federal Workers Covered by Social Security," prepared by the Congressional Research Service for the Committee on Post Office and Civil Service of the U.S. House of Representatives (GPO, 1985).

ment schedule for credits resulting from service before 1957 was replaced by immediate, full payment by the Treasury to the OASDHI trust funds of the present value of all future benefits arising from these credits. The Treasury also transferred to OASDHI the amount equivalent to the combined employer-employee OASDHI taxes, plus interest, on the noncontributory credits for the period 1957-83. Since the amount of the former payment was determined on an estimated basis, periodic adjustments will be required to assure that the Treasury accurately reimburses the trust funds for the cost of providing these benefits; the adjustments will be made in fiscal 1986 and every fifth year thereafter. The trust funds are now reimbursed annually for the OASDHI employer-employee taxes on all noncontributory wage credits for military service.

Transfers from the general fund for military-service wage credits represent contributions from the federal government, made as employer of military personnel, to finance future benefit obligations that arise from that employment. Since such a large portion of military pay is provided by remuneration in kind, these wage credits are necessary in order for the federal government to provide military service personnel with an adequae level of social security benefits. Thus, these transfers are analogous to payroll taxes paid by employers and therefore should be included along with the direct activities of OASDHI when evaluating the impact of social security on federal finances.

(c) Other intragovernmental receipts: The Social Security Amendments of 1983 contained a provision designed to treat the self-employed in much the same manner as employees and employers are treated for payroll and income tax purposes. Before 1984, the total OASDHI contribution rate faced by the self-employed was approximately 75 percent of the combined employer-employee rate. The 1983 amendments raised the self-employed payroll tax rate to the combined employer-employee rate beginning in 1984, and provided self-employed individuals with an income tax deduction equal to one-half of their total payroll tax contribution beginning in 1989. This deduction parallels the present provision which allows employers to deduct as a business expense the payroll taxes they pay on their employee's wages. During the transition period between 1984 and 1989 when the deduction becomes available, the self-employed will contribute payroll taxes at a rate lower than the combined employer-employee rate.

In 1984, self-employed persons were allowed a payroll tax credit of 2.7 percent of covered wages and thus contributed 11.3 percent instead of the scheduled 14.0 percent. They will receive similar credits of 2.3 percent for 1985 and 2.0 percent for 1986–89. From 1984 to 1989, however, appropriations from the Treasury to the OASDHI trust funds are based on the full employer-employee tax rates that apply in each year. As a result, in fiscal 1986 the Treasury will transfer approximately $2 billion to the OASDHI trust fund to compensate for the revenue loss to the trust funds associated with the difference between payroll tax rates applicable to the self-employed and the combined employer-employee rate.

OASDHI earnings credits will accrue in each year between 1984 and 1989 as if payroll taxes had been contributed according to the full scheduled employer-employee contribution rate. Hence, these transfers should be included with the direct activities of the trust funds when assessing the impact of OASDHI on federal finances.

II. INTRAGOVERNMENTAL OUTLAYS

(a) Payments to the Railroad Retirement Account: The Railroad Retirement Act of 1974 provides for a system of coordination and financial interchange between the Railroad Retirement program and the OASDHI programs. Under provisions of this Act, transfers between the Railroad Retirement Account and the trust funds are made annually in order to place each trust fund in the same position in which it would have been if railroad employment had always been covered under social security. In 1986, OASDI will transfer approximately $2.3 billion to the Railroad Retirement Account and the Railroad Retirement Account will transfer $300 million to HI, resulting in a net payment by OASDHI of approximately $2.0 billion. Since these funds represent reimbursement for benefits paid by the Railroad Retirement Account to private citizens, they are traditionally treated as direct expenditures of the OASDHI trust funds when assessing the contribution of OASDHI to the federal budget.

(b) Interest on normalized transfer: Before 1983, payroll taxes collected by the federal government were transferred to the trust funds immediately upon receipt. Beginning in May 1983, estimated total collections for each month are credited to the trust on the first day of the month.[2] As the actual collections are received during the month, they are deposited in the general fund of the Treasury. The trust funds reimburse the Treasury for the interest costs attributable to these advance transfers.

OASDI will pay approximately $1 billion in interest costs attributable to advance tax transfers in 1986. Without advance transfers from the Treasury, the social security trust funds might be required to look elsewhere for a source of advance revenues if trust fund balances were too low to meet benefit payments, which are generally made in the early part of each month. Similarly, the Treasury would be free to use the money involved in the advance transfer for other purposes. Thus, the interest costs associated with this transaction represent a legitimate expense of OASDI and should be included with direct OASDHI expenditures when assessing the impact of the social security trust funds on the federal budget.

APPENDIX B.—DEFICITS AND SURPLUSES OF THE SOCIAL SECURITY TRUST FUNDS, OTHER FEDERAL PROGRAMS, AND THE UNIFIED BUDGET, FISCAL YEARS 1937–86 [1]

[In billions of dollars]

Fiscal year	Social Security		Other Federal programs		Unified budget
	Without intragovernmental transactions	With intragovernmental transactions	Without intragovernmental transactions	With intragovernmental transactions	
1937	0.3	0.3	−3.0	−3.0	−2.8
1938	0.4	0.4	−1.6	−1.6	−1.2
1939	0.5	0.5	−4.4	−4.4	−3.9
1940	0.5	0.6	−3.4	−3.5	−2.9
1941	0.6	0.7	−5.5	−5.6	−4.9
1942	0.8	0.8	−21.3	−21.3	−20.5
1943	1.0	1.0	−55.5	−55.6	−54.6
1944	1.1	1.2	−48.6	−48.7	−47.6
1945	1.0	1.2	−48.3	−48.4	−47.3
1946	0.9	1.0	−16.8	−17.0	−15.9
1947	1.0	1.2	2.6	2.4	3.6
1948	1.1	1.2	10.7	10.5	11.8
1949	1.0	1.3	−0.4	−0.7	0.6
1950	1.3	1.6	−4.3	−4.6	−3.0
1951	1.6	1.8	4.6	4.3	6.1
1952	1.5	1.9	−3.0	−3.4	−1.5
1953	1.4	1.8	−7.9	−8.3	−6.5
1954	1.2	1.7	−2.4	−2.8	−1.2
1955	0.6	1.1	−3.6	−4.1	−3.0
1956	0.9	1.5	3.0	2.5	3.9
1957	0.1	0.8	3.3	2.6	3.4
1958	−0.2	0.5	−2.6	−3.3	−2.8
1959	−1.4	−0.7	−11.4	−12.1	−12.8
1960	−1.0	−0.2	1.3	0.5	0.3
1961	−0.4	0.4	−2.9	−3.8	−3.3
1962	−2.1	−1.3	−5.1	−5.9	−7.1
1963	−1.6	−0.8	−3.1	−4.0	−4.8
1964	−0.3	0.6	−5.6	−6.5	−5.9
1965	−0.7	0.2	−0.7	−1.6	−1.4
1966	−0.8	0.2	−2.9	−3.9	−3.7
1967	2.7	4.5	−11.4	−13.1	−8.6
1968	0.8	2.7	−25.9	−27.8	−25.2
1969	1.3	4.3	1.9	−1.1	3.2
1970	3.0	6.5	−5.8	−9.4	−2.8
1971	−0.7	3.4	−22.3	−26.5	−23.0
1972	−1.3	2.8	−22.1	−26.2	−23.4
1973	−2.2	2.0	−12.7	−16.9	−14.9
1974	0.6	5.4	−6.7	−11.5	−6.1
1975	−1.5	4.0	−51.8	−57.2	−53.2

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[2] Beginning in August 1984, advance transfers of HI tax receipts were discontinued.

APPENDIX B.—DEFICITS AND SURPLUSES OF THE SOCIAL SECURITY TRUST FUNDS, OTHER FEDERAL PROGRAMS, AND THE UNIFIED BUDGET, FISCAL YEARS 1937–86 [1]—Continued

[In billions of dollars]

Fiscal year	Social Security		Other Federal programs		Unified budget
	Without intragovernmental transactions	With intragovernmental transactions	Without intragovernmental transactions	With intragovernmental transactions	
1976	-8.0	-2.3	-65.7	-71.5	-73.7
1977	-9.9	-3.7	-43.8	-49.9	-53.6
1978	-9.6	-3.6	-49.4	-55.4	-59.0
1979	-6.4	-0.4	-33.7	-39.7	-40.2
1980	-6.3	0	-67.5	-73.8	-73.8
1981	-8.3	-1.4	-70.6	-77.5	-78.9
1982	-13.0	-5.2	-115.0	-122.8	-127.9
1983	-27.9	6.0	-179.9	-213.8	-207.8
1984	-11.6	3.7	-173.7	-189.0	-105.3
1985	-5.3	8.7	-217.0	-231.0	-222.2
1986	5.4	22.7	-185.4	-202.7	-180.0

[1] Social security includes the old-age and survivors insurance (OASI), disability insurance (DI), and hospital insurance (HI) trust funds.

Sources: 1985 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 1985 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund; Historical Tables, Budget of the United States Government, Fiscal Year 1986 (GPO, 1985); and author's calculations.

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